

Public Utilities

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What's Around the Corner

Growth of government competition with private business a world menace, in the opinion of the author, rather than merely a local or national problem.

By ARTHUR HUNTINGTON

WITHOUT attempting to question the value and justice of using government credit for the financing of many types of public improvements, let us consider briefly some of the abuses of the privileges which were contemplated when laws were passed which permitted the mortgaging of the future in the interest of common good.

For many years investors have been making great effort to increase the security of their funds whether invested in public works or private business. The ever-increasing ease with which governmental securities can be created, government subsidies to some businesses, and the growth of political regulation of, and attack upon, others

has created an unbalanced condition which is a large factor in our present depression and a real obstacle to recovery.

Rather than take a chance in those businesses which are being disturbed by forced political charges, investors are backing the politicians and socialists in business enterprises which will give to them a security which is tax free, independent of either business profit or property values and with both interest and principal collected at public expense, until approximately 225 businesses and industries are feeling the pressure of direct competition, and all industry throughout the country is being disturbed by governmental meddling.

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THE light and power industry and a few others for several years have had to deal in a minor way with all these disturbing influences, but now it has become a matter of major importance to all industry. During recent months state regulation and local competition have grown to Federal- and state-owned competition and retaliatory laws with destructive taxes, and unjust codes and rates, all supported by politically directed and governmentally supported propaganda.

The light and power industry for some years has had to meet subsidized competition and to endure unjust attacks; this attack has increased until it is high time for utility men to study the problem of government in business with the view of ascertaining the objective behind it, and of making effort to interest both the operators of other businesses which are being subject to government competition and people generally who are interested in fair play and in sound economic business practices.

Until recently the invasion of the government into those fields which have normally been considered suited to private management, has been gradual and confined to those few industries which are best suited to political operation. The present unprecedented attacks make it imperative that all people should know some of the basic causes for the government's being in business, and that they should make an honest effort to appraise the economic soundness of what is happening.

THERE are three factors which are of such magnitude that they should be very carefully studied:

1. The balance sheet which does not give a true picture as to the profitability of these government-owned and operated businesses.

2. The tax-exempt government security with its guaranty from the public treasury.

3. The use of the government in business to further handicap labor and business in their efforts to compete with investment money.

This article deals particularly with the balance sheet and the tax-exempt government security and sets out some of the ways in which they are being used to create unfair competition with private business.

The world at the present time is near the peak of one of those periodic cycles in the age-old battle between money and men, each striving for a maximum share of the accumulated and consumable wealth of the world.

For the time being money not only has the upper hand, but it is demanding that it be given both a preferred share and a preferred security.

FOR more than three normal generations, promoters, the producers of manufactured products, the investment banker and his ever-increasing clientele, and labor have been busy creating ways of causing the investment of money in public works and in governmental business enterprises. Money so invested always demands as its security an absolutely first mortgage on all of the resources of the people in the form of a tax-exempt security with both interest and principal guaranteed by the public treasury and collected at public expense. So much money has been put to work in this way, that for many years government securities have been the most

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accepted securities for such institutions as trust and insurance companies. They are a part of the resources of nearly every known type of endowment fund.

Such securities are obtainable only in exchange for the resources with which to pay deficits or to build up public works, or for money with which to put the government into business. Many groups of our best citizens, which include many industrial and financial leaders, are at present madly using each of these accepted means of creating government securities, hoping thereby, to strengthen our business structure. No equal peacetime period in the world's history has produced such huge governmental borrowings.

WHAT is the end? Sooner or later bankers will demand that budgets be balanced in order that the credit of the government be maintained. The public knows that each public improvement must in the last analysis be paid for by direct tax levies. So in time a halt is called. There seems to be no limit to the lure which leads bankers, politicians, business men, and taxpayers to put the government into business; at the present time there seems to be a mandate from the people for the government to enter all fields

of endeavor, using both public money and public credit.

This invasion of government into the field of private business is more than a local and national problem; it is a world menace; each nation is being driven into some form of business venture by its own politicians acting in conjunction with the world bankers.

Even labor is advocating the investing of huge governmental borrowing in public works program; utterly forgetting that such expenditures put many dollars to work on a basis of a long-time period, whereas they at best create relatively few permanent jobs. Many times such public spendings destroy more permanent jobs of operations than they create in temporary construction jobs.

THE practice is economically unsound and exists only by a long list of subsidies. It is practiced in the interest of the holders of the tax-free governmental securities, political patronage, manufacturers of equipment, promoters, and those who desire to destroy our present economic and social structure. It is now developing at a rapid rate, having entered approximately 225 businesses and industries as a competitor, and is fast becoming a factor in others



"THE public is encouraged to regard all public works as improvements. While many of them are of inestimable value, others are merely 'endowed tombstones' created in selfishness to be supported by taxation. They are paid for by governmental borrowing and taxes passed on to posterity. If no tax-exempt securities had been created, many of these enterprises would never have been suggested."

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through the establishing of paternalistic dictatorships.

The study of any government order which deals with the regulation of, or competition with, any business, or the contract which is required before any dole or other aid is extended to any preferred industry is convincing evidence that regimentation is contemplated even though it is not now being actually practiced.

The most influential group promoting government in business is the investment banker and his clientele. It is this group that furnishes the money with which to build public works. Many works have indirectly been promoted by this group and it is this group which in the end profit most. The clientele is made up of two groups:

1. Those with enough wealth to free them from the hazards of business and property value fluctuation.

2. Investors with resources sufficient to meet present needs and surplus to invest with a view to safety, rather than immediate returns; each owner of an insurance policy, savings account, or endowment fund, and many others indirectly own tax exempt government securities.

INVESTORS in these securities and promoters have resorted to every known way of creating them and have used every known propaganda and deception to induce the public to vote such bonds and to persuade political authorities to issue them where a vote of the people is not required. They are continually promoting policies which will in the end force public borrowing.

They have appealed to public pride; they have made emergencies, created

wars, as well as promoted valuable and needed public works; they have often wasted huge funds in the creating of worthless enterprises; they are now busy in driving the government into every known business where a "Postmaster General Farley Balance Sheet" will show an apparent profit, or hoped-for public good. But why refer to Mr. Farley's now famous balance sheet? It is in line with all balance sheets which have been regularly put out by all government business enterprises since the first invasion of any government into the field of business.

Stated briefly: the wise politician does not put the government into a business unless the free use of public funds, management, taxes, and deficits can be charged to the taxpayers direct, and then only when these costs make upwards of 60 per cent of the total costs which private operators must meet. Even with these advantages he makes sure by having the bonds voted by the people. The experienced financial and political promoters of such enterprises carefully avoid those industries which call for a large operating payroll. Their objective is to put dollars to work rather than men. They are interested only in places where the construction payroll can be made a part of a bond issue, and where operating payroll is small in proportion to the fixed costs.

AT first glance the demand for political operation of the railroads seems to be at variance with the accepted rule. As a matter of fact, it comes way inside the rule. The gross value of the railroads is \$26,000,000,000, and the employees num-



Government's Threat against Business

"THE government attacked and invaded industries may be in for some hard going, but God pity those industries which are now being lulled to sleep by the politicians' paternalistic attention. Each invasion of any industry is an unwarranted invasion by the government into the field of business; each is economically unsound; each is an effort to wrest from the people some of the freedom which has come after centuries of combat with dictators who assumed that the right of a few to do the economic planning for the many, was of divine origin."

ber less than a million men. Under political operation during the war, there were 2,000,000 men, not a large force for so valuable a property. Our freight rates are the lowest on earth when measured in cost per ton mile, and there are many ways to shift the capital costs from the roads to the Federal Treasury. The \$1,123,500,000 deficit and the \$222,696,000 depreciation accounts incurred during the twenty-two months of war-time operation created little interest.

There are many investors who are perfectly willing to exchange their railroad holdings for Federal bonds, and there are plenty of politicians who are ready to expand the railroad payroll back to the 2,000,000 peak. Yes, with government operation of the railroads, there would be more government bonds in proportion than employees, but that is a story all its own.

As already stated the major reasons for issuing government securities are: 1, to balance budgets; 2, to create public improvements; 3, to create funds with which the government can enter business.

The beneficiaries are: 1, the investment banker and his clientele; 2, the politician and his henchmen, including labor leaders; 3, the socialist; and 4, those promoters who have material or services to sell.

The burden is borne by: 1, those whose business is subject to unfair competition; 2, taxpayers; 3, the users of products of this stifling competition and fight for existence; 4, the employee, below the leader group, for in the last analysis government wages are low; and 5, posterity.

The mere listing of the causes for and the ways whereby these securities are created and of the people who

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are either beneficiaries of or bear the burden which they create means little unless we familiarize ourselves with the economics of this whole problem. Briefly the economic aspects are as follows:

The question of deficits has always been of vital importance to the stability of any government. At present so many Federal, state, and municipal budgets are being divided into operating and emergency budgets and balanced by the mere juggling of figures and by the borrowings, that the United States Chamber of Commerce called for a general referendum on the subject, and Congress was asked to consider legislation designed to give the public a full and comprehensive statement regarding each budget and deficit. Emergency deficits of the present time are a matter for national concern.

THE public is encouraged to regard all public works as improvements. While many of them are of inestimable value, others are merely "endowed tombstones" created in selfishness to be supported by taxation. They are paid for by governmental borrowing and taxes passed on to posterity. If no tax-exempt securities had been created, many of these enterprises would never have been suggested.

Each governmental invasion into the field of business carries with it an economic threat. It is made with a promise of either direct or indirect profit. The benefit may be the creation of a "yardstick" with which to gauge the profits which private operators are possibly allowed to make. It often contemplates the giving of serv-

ice to places where the business will not justify the expenditure of private capital. It may even contemplate the destruction of an industry. We are now issuing many securities for noble and ignoble social experiments. Much of the money and credit which should be the life blood of business recovery is being absorbed in the financing of government experiments.

MANY governmental business enterprises are made to show a profit on paper by ignoring real costs. If all of the costs which private operators must meet should be made to show in a publicly operated business balance sheet, few businesses of that kind would long survive. If the bonds which create these enterprises depended for their security solely on the property of the enterprise and the profits from operation, few of them would have ever existed.

Many of the economic benefits attributed to some of our government and municipal business enterprises are only limited by the imagination of the public officials who operate them; too often, alleged huge profits from actual operation are equally as imaginary.

Perhaps the best analysis ever made of the motives behind the investment banker and his clientele was made by the late Senator J. B. Foraker, of Ohio, in discussing the unloading of the Cincinnati waterworks on the taxpayers of that city. He said:

1. There are people who have more money than they can handle in business, who do not want to take the risk of business or of fluctuating property values.
2. There is an ever-increasing number of people who have funds, the safety of which is more important than the interest rate.
3. There is a class of people who would rather have a first mortgage on the property and income of tax-paying public than

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to own real estate or to be responsible for the operation of a business. The owners of this property (The Cincinnati Water Company) have exchanged it for a first mortgage on the city of Cincinnati.

4. The greatest menace I see to our economic, political, and social structure is the ever-increasing influence which preferred government securities are having in the financial structure of some of our basically financed institutions. The granting of Federal support for state projects is insidious bribing of the state which in the end will drag each state into unwarranted spending which will call for an even greater mortgaging of the future.

THE politician has willingly become a part of this whole scheme of forcing the government into extravagant excursions into the field of business.

In 1906 Robert M. LaFollette in his public address at Sioux Falls, South Dakota, after prefacing his remark with the statement that there were few Democrats or Republicans in professional politics, said: "The American people dearly love to be bribed with their own money." In conversation after the meeting, discussing the payment of political workers he further said that a few men played politics for the love of the game; that most workers had to be paid; and that there were only three ways whereby a political worker could be paid: 1, from private funds; 2, from the profits from graft; and 3, by patronage. He further said:

I am an honest man without personal funds or access to the private funds of others. I will not graft. Patronage has

come to be so important a part of the business of professional politics that a politician must develop more jobs for his workers with as much zeal as a banker develops bank deposits or a railroad develops tonnage.

THE ever-increasing number of people who live by political patronage is ample proof of the Senator's statement. If any one doubts that the promoters of the government invasion into the field of business are political workers who must be rewarded by the politician, let him merely suggest a pay-as-you-go policy for the government, or that the securities which are issued for the purpose of starting any governmental business enterprise be made dependent on profits from the industry for the return of the invested capital, or for the interest on the investment, or that the enterprise pay its full portion of taxes.

Even the suggestion that governmental business enterprises shoulder the costs which private business must meet causes each politician and promoter or holder of government securities to shudder.

The socialist regards the entrance of government into business from three angles. He believes that:

1. Such business enterprises furnish easy jobs and ample opportunity for spreading socialist propaganda.
2. Enough of government in business will eventually create a tax bur-



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den which will drive all except government-supported businesses and industries to bankruptcy.

3. The use of public money with which to enter business without proper accounting will eventually eliminate the consideration of returns on all investment as an item of earnings and in the end destroy capitalism. More than a quarter of a century ago, he advocated governmental financing at a low interest rate as a thrust at the very foundation of the capitalistic business structure.

THE interest of those who are opposed to government in business for the most part is quite apparent. It is taken for granted that those men who are interested in any one of the approximately 225 businesses and industries, which are subject to government competition, are definitely opposed to it.

The taxpayer, if he is ever given all the facts, will cease to be influenced by the tons of propaganda now being put out in the interest of public spending and governmental business enterprises.

The service from governmental business enterprises, notwithstanding the propaganda issued in their behalf, is, when buried costs are included, very expensive, and of unusually low standard. Just a faint memory of twenty-two months of railroad operation during the war is enough for anyone who remembers the facts. A complete balance sheet of any of our vast irrigation or inland water-way enterprises would be equally convincing. The governmental workers below the elected politician are a hopeless lot; they are as a class under-paid and deprived of the opportunity to advance. It is this group that first

feels the pinch of governmental economics.

THEY are the last to profit as individuals from public spending. Who ever heard of a mail carrier being advanced to postmaster, or a civil service employee being handed a cabinet portfolio? One of the major complaints against the utilities in the report of the New York Power Commission to the President sets out that utilities pay wages which are excessive and unwarranted. A study of the wage scales of the governmental business enterprises the world over, should set each wage earner against governmental invasion of business.

The stifling effect of political domination of any field is well known. The fifty years of domination of the waterworks fields has been almost devoid of progress in comparison with the preceding fifty years under private ownership spurred on by private initiative.

The greatest step forward in the world's advance toward civilization, came when the overlord was deprived of the divine right to do the economic planning for the people. Each step toward governmental economic planning is a step toward the dark ages. Each step into the field of public ownership of business, with the public debt which it creates, is of vital interest to future generations.

MUCH news and propaganda is now flooding the country which stresses the dishonest and selfish motives of a man high and low in the commercial world; yet none of their alleged depredations is in a class with some of the carefully prepared de-

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ception which is being given to the public in the interest of promoting alleged public works business enterprises. Many of these projects are started with a bribe to the voters of 30 per cent of the estimated cost to be paid from the Federal Treasury.

That these reports are now being prepared by men who know the falseness of the fundamental reasoning is beyond question. Imagine if you can a nationally known engineer assuming that such items as interest, depreciation, taxes, etc., are proportional to the use of the product manufactured. It required no technical training or experience to know that each of these items would exist, even if the plant produced no output, and that they change little from no production up to maximum output.

The assumption that the reduction in our present low electric rates will increase sales and in the end make the whole electric industry prosperous, is as preposterous, as it would be to advocate the lowering of the price of corn from 50 cents per bushel to 40 cents, in order to make agriculture prosperous. Many of the electric rates now being proposed and forced on the electric companies are as economically hazardous as were the 8-cent and 10-cent corn prices of 1933.

A CHEAP price is not always a factor in increased sales as was proven by the public utilities in 1910. They reduced rates nationally approx-

imately 25 per cent and the current use per consumer dropped 33½ per cent. Increased use is usually the result of increased sales effort, and is seldom the result of a cheap price.

Public sentiment is rapidly being aroused to the seriousness of the invasion by the government into the field of private business, so much so that the politician is almost afraid to take notice; yet the attacked and invaded industries are not nearly in as much danger as those which are permitting themselves to be regimented in exchange for doles, subsidies, and a whole list of special attentions and privileges.

The government attacked and invaded industries may be in for some hard going, but God pity those industries which are now being lulled to sleep by the politicians' paternalistic attention. Each invasion of any industry is an unwarranted invasion by the government into the field of business; each is economically unsound; each is an effort to wrest from the people some of the freedom which has come after centuries of combat with dictators who assumed that the right of a few to do the economic planning for the many was of divine origin.

Recovery is not around the corner; it is standing in plain view. Business is chafing at the bit and will forge ahead as soon as it is guaranteed a stable base on which to stand and reasonable freedom from governmental attack and meddling.

Q "No matter how desirable public officials may think it is for the Federal government to project itself into the affairs of our citizens, it can do so only to the extent authorized by the Constitution."

—CHARLES L. DAWSON,
Federal District Judge.



State Commission Regulation Has Succeeded

A Brief Glance at the Record

By GEORGE E. DOYING

Does not the gentleman think that the fact that the public utilities commissions have not done anything toward reducing rates that they will not do anything? — CONGRESSIONAL RECORD, 1st session, 74th Congress, page 1925 (February 12, 1935).

THE above observation, made on the floor of the National House of Representatives, really deserves space in the FORTNIGHTLY'S "Remarkable Remarks." It is typical of the loose, irresponsible comments frequently made on the "failure" of state commission regulation of public utilities.

The Congressman who thus cast aspersions upon state commissions might be expected to be informed of what has happened in the state he assumes to represent—California. Obviously, however, that would be a violent assumption. Let him ponder over these facts: The California commission in 1934 effected reductions in rates of public utilities to the amount of \$3,985,000. During

the last three years utility rate reductions in California aggregated \$9,536,486, and in the thirteen years from 1921 to 1934 they reached the imposing total of \$77,569,864, and this sum is more than eight times as great if calculated on a cumulative basis. So much for California alone.

Let this Congressman and other critics of state commission regulation ponder further over these facts: In the single year of 1934, the commissions in 24 states were instrumental in effecting reductions in the rates of electric, gas, and telephone utilities to the enormous amount of \$45,543,048. Approximately two thirds of this reduction resulted from formal action by the commissions, while the remainder was effected through negotiation and informal conferences with the utilities.

THAT the large amount of reductions made in 1934 was not peculiar to that year is evidenced by the fact that the aggregate of reductions made in only 15 states in the last

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three years was \$81,457,629. The figure given is merely the sum of the reductions made in each of the three years. Taken on a cumulative basis, since those made in 1932 continued through 1933 and 1934, the grand total would amount to \$160,000,000. This would hardly indicate any failure of state commission regulation.

Ohio stands out well above the other states in the amount of reductions in 1932, 1933, and 1934, the commission there reporting the amazing total of \$29,844,446. Illinois is next with \$11,419,051, followed closely by California with \$9,536,486, and Wisconsin with \$7,805,377.

On the basis of rate reductions alone, the state commissions generally have far more than justified their existence. Reverting again to California, a report from the commission of that state shows that while reductions effected during the last thirteen years totaled \$77,569,864, the cost of the commission to the state in the same period was only \$6,279,640. Considering the reductions as cumulative and continuing, they amount to \$666,923,612, giving a unit saving per dollar of expenditure of \$106.20. Not a bad investment.

PERSONS who blandly assert that commission regulation has broken down, or that it never did work effectively in the interests of the public, are somewhat like the inebriated gentleman who loudly declared that he could whip any man in the barroom. Receiving no response, he said he could whip any one in the city; then he enlarged the field to the county. Upon being felled to the floor by a husky acceptor of the challenge, the

swashbuckling individual ruefully observed, "I took in too much territory that time."

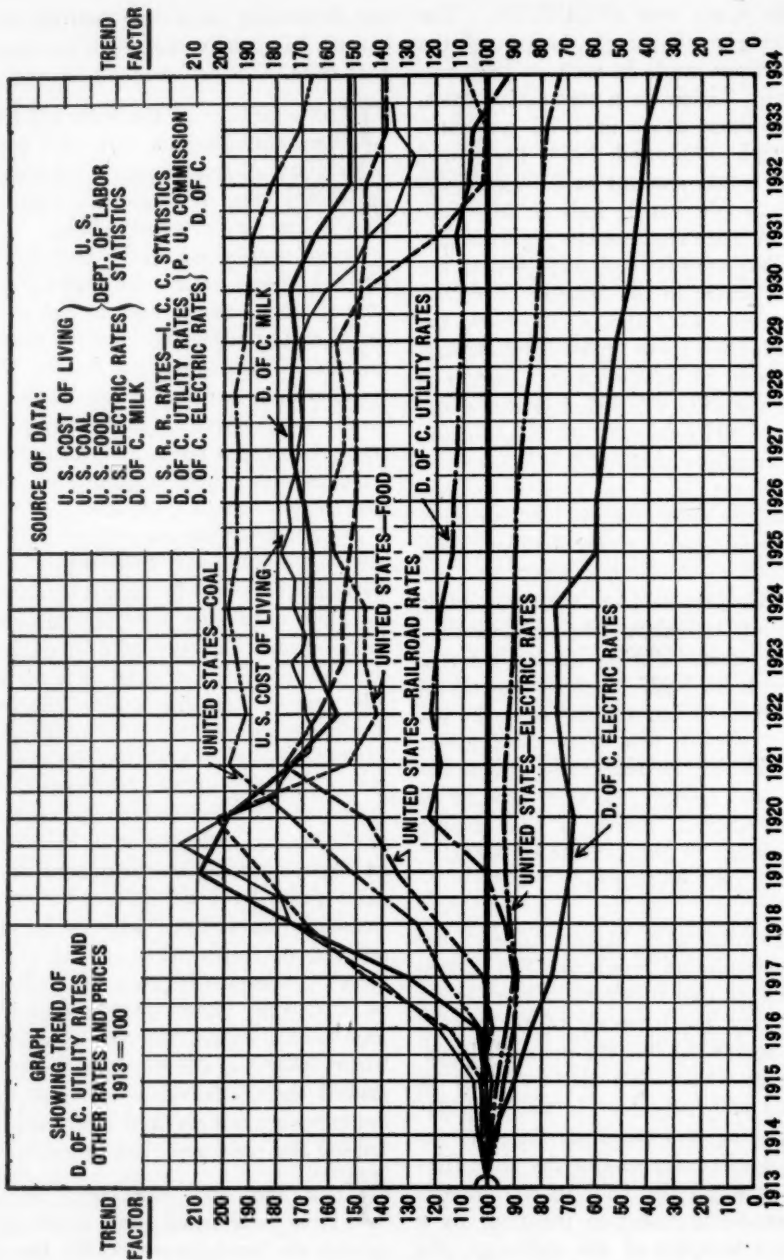
THE members of the state regulatory commissions, now and during the last quarter century, represent as high a type of American citizenship as can be found anywhere.

Some unthinking and uninformed citizens appear to assume that a state commission merely has to wave a wand or something and presto! down go rates. Occasionally a few of the commissions, perhaps under pressure from a governor, have attempted some such hocus pocus and, naturally, have promptly been enjoined by the courts.

All commissions are subject to the law of the land, and their duties and powers are defined by statutes enacted by their respective state legislatures. If a commission attempted to exceed the powers thus conferred, it is virtually certain that the utility affected would appeal to the courts in defense of its legal rights, and that the courts would properly uphold the law. The fact that the commissions have gone to the limit in reducing rates is shown by court reversals on the ground that rates fixed by commissions in some instances have been so low as to amount to confiscation of the company's property. It cannot, therefore, be said that commission regulation has failed, except on the untenable theory that the courts have not permitted the commissions to take the company's property and distribute it among the company's customers.

THE fact that the commissions have established rates which approach the confiscatory border line is

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established by evidence in many cases, while the claim that they have failed to reduce rates as much as they should is a mere assertion, backed by no evidence whatsoever.

No one asserts that all commissions and all commissioners have been perfect, but that does not mean that commission regulation has failed.

About two thirds of the state regulatory commissions are appointed by governors; the others are elected by popular vote. It follows, of course, that the people generally get the kind of commission they think they want. That is, in the case of appointive commissions, the people get a commission more or less of the same quality as the governor elected by the people. In some cases, while the appointive power is vested in the governor, the term of each commissioner exceeds that of the executive and the latter does not have the power to remove at his pleasure. This tends to place the commission more nearly on a plane equal to that of a court and tends further to remove the commissioners from political influence. On the other hand, there are instances where the terms of all commissioners coincide with the term of the governor, the theory being that the executive should have the privilege of appointing commissioners who will reflect his policies. This method works particularly well when the governor is a man of high character and ability

who places service to his state above political advantage.

REPORTS of intervention of the governor of a state to dominate or direct the action of a state commission have been exceedingly rare, and certainly where such a policy has been adopted by a chief executive, it has never been for the purpose of maintaining *high rates* so as to defeat the purpose of regulation. Political pressure on the commissions by executives, to put it mildly, has been the other way.

Naturally enough, it is only the more spectacular activities of a state commission that gain popular attention. In this era of utility-baiting, any action that can be portrayed, even though not so intended, as a blow to a utility is widely publicized. But there is no "news value" in the fact that these same state commissions have played a vital part in developing the high degree of perfection of all kinds of public utility service that adds so much to the comfort and convenience of millions of American citizens.

To the credit of the utilities themselves be it said that they have generally coöperated in a whole-hearted manner with the commissions in improving the quality of service. Much of the improvement doubtless would have eventuated through scientific advancement, but it has been the state



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agencies that have directed and insisted upon specific standards of service which have proved to be of immeasurable benefit not only to the public but to the utilities as well. In the field of *utility service*, therefore, the state commissions have also been successful.

THE flame on the gas stove in your kitchen burns more evenly and with a more uniform heating efficiency largely because the state commission has adopted rules to govern the pressure and heating quality. The electric light in your home is more dependable because of the commission's insistence upon strict adherence to other standards. Your telephone service is better for similar reasons.

Do you think your gas or electric meter registers incorrectly, resulting in bills for more service than you have used? In most of the states you can notify your commission and the meter will be tested. If you are found to be wrong, however, the commission may charge you a few dollars to pay for the test; otherwise, the utility will be made to pay as well as to refund the overcharges.

Are you having a dispute with one of the companies over a bill? If you believe the utility is in the wrong and is not according you the treatment to which you think you are entitled, write full particulars to the commission. Its section of informal cases probably will handle the matter by correspondence and effect a settlement. This does not mean, of course, that your contentions will necessarily be sustained. All the facts, from both sides, will be assembled and the commission's representative, skilled in

such affairs, will render judgment. If you are still not satisfied, and consider the case of sufficient importance, you can institute formal action with the commission. The state commissions are at your service.

THE broad scope of a commission's activities is not realized by the general public. Here is the set-up of one state commission, and it is more or less typical of all: The staff is divided into seven departments—secretarial, engineering, finance and accounting, rates, legal, motor carriers, reporting. The engineering department is divided into six divisions—gas and electric, hydraulic, safety, telephone and telegraph, transportation, valuation. This particular commission has under its jurisdiction 1,544 public utilities, including warehousemen, wharfingers, inland water carriers, bus and truck lines, express companies, steam railroads, electric railroads, water companies, telephone and telegraph, gas companies and electric power companies.

In a general way the commission's duties may be divided into four parts. It is primarily charged with:

- (1) Fixing rates, granting reparation for excess charges, making valuations of utility property for rate-making purposes, and condemnation.
- (2) Supervising service and service conditions, including matters involving public safety and the prevention of unreasonable discrimination between public utility patrons.
- (3) Approving security issues of public utilities.
- (4) Regulating competition between the utilities themselves.

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"ALL too often a state legislature has broadened the duties of the commission and at the same time has overlooked the appropriate funds for the carrying on of the increased duties. Yet there have been few states where the investment in the form of appropriations has not been returned several times over in reduced rates and better service."



mission and at the same time has overlooked the appropriate funds for the carrying on of the increased duties. Yet there have been few states where the investment in the form of appropriations has not been returned several times over in reduced rates and better service. Even with limited funds, the state commissions generally have performed a magnificent service in the interest of the people of their states.

In preparing to write this article, I discussed the subject, by correspondence and in person, with numerous commissioners. Of course, they might be characterized as prejudiced witnesses, but their views are at least worthy of consideration.

"As I view it," said one of them, "even the worst of utility regulation has been conducted better than other governmental functions in the same localities."

There is much food for thought in that statement. Let critics of commission regulation think it over.

The public utilities commission of the District of Columbia recently prepared a graph, reproduced herewith, on which is shown the fluctuations of unregulated commodity prices,

such as coal, milk, food, and the trend of the cost of living. In addition, there is shown the trend of regulated railroad rates, the regulated District of Columbia utility rates, the regulated United States electric rates for the country as a whole and similarly for the District of Columbia.

LOOKING at the graph, you will observe that since 1913 all the trends for unregulated commodities affecting human welfare are above the other trends. You will observe further that electric rates throughout the United States, which are regulated solely by local bodies, when contrasted with railroad rates under national regulation present a rather strong argument favorable to state regulatory bodies and do not indicate failure.

"After all is said and done," said a commissioner to me, "what constitutes failure of utility regulation?"

"If regulation is measured by the results obtained in the prices paid by the people, then I think it would be appropriate to compare the trends in the manner in which the District of Columbia commission has shown them

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in its graph. Furthermore, I think it would be well to determine the extent to which regulation has failed by plotting the decreased cost of utility service under regulation on a graph indicating the trend of taxes paid by the same consumers. I dare say that if taxation had decreased to the same extent that regulation has decreased utility rates, it would be highly gratifying to the country as a whole.

"As a matter of plain fact, since regulation by state bodies became

prevalent throughout the United States, beginning about 1913, the quality of the service has constantly increased and the rate paid for utility service has been below the trend of other general costs until at the moment, and all during the depression, the quality of the service rendered by utilities is at a peak while the cost of the service to the public is at a minimum."

State commission regulation has been a marked success.



Facts Worth Noting

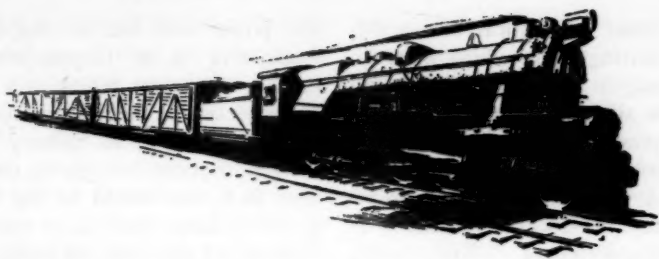
UNDER private initiative and private ownership and management the people of the United States have constructed 260,000 miles of railroads, one third of the total on the earth. This record has been set up with 6.3 per cent of the earth's population on 5 per cent of the earth's land area.

THERE is enough telegraph wire in Western Union's land-lines alone to provide eight complete telegraph wires between the earth and the moon—or a total of 1,864,643 miles of wire, 75 per cent of which is copper. Practically all telegraph wire was made of iron fifty years ago.

IN July, 1934, there were 210 electric railways in the United States operating 11,302 motor busses over 19,150 miles of one-way route. At the same time there were 115 former electric railways operating 1,887 motor busses over 3,898 miles of route. These latter companies have abandoned all electric railway operations and are now running busses exclusively.

THE engineers of the French ministry of posts, telegraphs, and telephones have perfected an alarm to warn the police of attempted burglaries. The device, called a "sygnaphone," consists of a small phonograph-like apparatus which is hooked up with an ordinary telephone. By means of multiple contacts with various parts of the house and a direct connection with the police headquarters, it is claimed that it affords a fool-proof burglar alarm.

SINCE the Interborough Rapid Transit Company first began to operate subway trains in New York city thirty years ago, the system has carried a total of 16,500,000,000 passengers—eight times the estimated population of the world, and 2,328 times the population of New York city. Fares collected have totaled more than \$820,000,000. For the year ended June 30th last, total riders over the present 76-mile Interborough subway system were 810,296,328. Interborough started operations with 500 cars; it now has 2,271.



Vitamins for the Railroads

THE rail lines failed, in the opinion of the author, not because of any impropriety in their essential combination of power and materials but because of unrefinement of design and inexpert operation; and he says that not until they do their best to provide fast, clean, comfortable travel can they hope to regain patronage.

By TYLER GASKILL PRICE

WHEN the lean and hungry years, following 1929, came snuffing round the door-jams of Prosperity, the railroads fell ill of a palsy brought on by lack of money due to insufficient traffic. Heavy traction was starving to death but life might be prolonged if the scanty diet could be more nearly balanced, a little more spinach with the beans, so to speak, the spinach being the hitherto unpopular passenger traffic which in the good old days used to bring in a mere 20 per cent of the gross revenue while the freight trains were scooping up the highly delectable 80.

As soon as the steam lines admitted that, after all, there might be something in this vitamin business, solicitous salesmen began buzzing their door bells with a wide variety of mechanical patent medicines, each a sure-fire cure for that tired feeling in the passenger traffic department. Car pre-coolers and streamline trains, air-conditioning equipment, and Diesel

locomotives, singly or in combination, were tried in the hope of reviving the life-giving circulation of patronage.

SOME of the devices were good and some were not so good but all suffered from two major disadvantages, to wit, they all cost money which the roads could ill afford in these parlous times, and none could be applied widely enough to be of real benefit. But for all that, the carriers spent much money on new equipment and so unwittingly demonstrated the topsy-turvy philosophy that a pound of cure is better than an ounce of prevention. It is better to spend money to surmount an obstacle than to remove the obstruction and garner the savings!

Paradoxically that inverted philosophy was fostered by the very nearness to perfection of the original mechanism, that superlative engineering combination of power and materials for mass transportation, the steam-driven steel wheels on steel rails of the railroad. The rail and wheel

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are the most economical and trustworthy bearing upon which to move vast tonnages. The locomotive inherits the simplicity, the tremendous starting power, and the high speed of the reciprocating steam engine. The train is a vehicle whose variable capacity may be instantly adjusted to traffic requirements. The entire mechanism is potentially the most effective instrumentality for general overland transport which man has yet devised.

THERE lay the trouble. The railroad was too good. From their very inception the steam-driven steel wheels on steel rails were so vastly superior to their horse-drawn predecessors in their rutted lanes that carrier administrations could envision neither the opportunity nor the necessity for logical improvement. Why bother? Theirs was the traffic by Divine Right and John Citizen could ship himself and his chattels by rail or be damned on horseback.

Inevitably the attitude engendered a philosophic myopia which prevented recognition of the axiom that no tool can be successful, however correct may be its underlying principle, unless it is also craftily designed and astutely operated. The railroad failed, not because of any impropriety in its essential combination of power and materials but because of unrefinement of design and inexpert operation. The rail and wheel are the correct device for moving great weights. But the standard brass journal bearing is as inappropriate for slow-moving freight cars as sand would be for a lubricant.

The steam engine is the proper mo-

tive power unit but the coal-burning locomotive is as inappropriate for hauling passenger trains as a sledgehammer would be for driving carpet tacks. The open-air railway yard is as inappropriate for storing passenger cars as a tent would be for housing grand pianos. And so on and on, *ad libitum*, *ad nauseam*, *ad infinitum*.

THE inability to perceive such incongruities prompted the purchase of new equipment to avoid defects which were in nowise inherent in the standard rolling stock. But the millions so spent were picayunes as compared with those lost through an operating practice which was nothing short of Bedlamite in its stupendous wastefulness.

Passenger trains, capable of earning all of their operating expenses and a part, but not all, of their fixed charges were obviously losing money for every mile of travel and were taken out of service on the theory that if they ran no miles they could lose no money. The predictable consequences were not predicted. Men and machines were thrown out of work. The service was so reduced that John Citizen became, perforce, even less rail-minded than ever. And the fixed charges, which must be paid whether the rolling stock rolls or stands still, became a total loss so that thousands of the cars and engines now rotting on storage tracks, are actually losing more money than they could by running on the main line. Incredible as it seems this policy was carried out by practically every steam line in the country.

TO be sure, there was a certain mad reasoning to the business.

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Carrier administrations cling to the premise that a decline of revenues is the signal for the restriction of expenditures. The investment costs, interest depreciation, insurance, and taxes could not be lowered, because by far the greater portion of railway indebtedness is represented not by shares, the dividends of which could be passed in times of stress, but by bonds, the interest of which could not be defaulted without admitting bankruptcy. Depreciation reserves could not be reduced because they did not exist. Insurance held steady. Taxes soared.

On the other hand the labor, fuel, and maintenance charges of operation could be lowered by reducing the number of trains. The two sides of a trial balance could thus be brought into more stable equilibrium, assuming, of course, that the income would remain constant as the service was curtailed.

From that assumption one might conclude that the operating expenses could be reduced to zero by cutting out all trains and as the present income is more than sufficient to pay the fixed charges, the roads would begin to earn money. *Quid erat delirium tremens.*

THE pursuance of the thought to this ultimate hebetude might have

led to the discovery of the fact that the patronage of any utility declines much more sharply than do the operating expenses when the amount or character of the service is lowered, providing, of course, that there are other means of gaining similar service. Particularly is this true of mass transportation where the mechanical facilities in direct competition with each other are many and varied. When the traveler finds that this favorite train has been deleted he neither hustles to catch an earlier one nor waits around for a later but seeks out some other mode of transport which more nearly suits his convenience. Cutting out 10 per cent of trains will reduce the patronage by more than 10 per cent even though those trains had never received their full share of the original traffic.

The axiom was not recognized by the carriers. Under the impression that a reduction of operating expenses by a reduction of service would place them in a better financial condition they took to inventing parlor tricks of phoney algebra whereby they proved that minus 1 was even better than a plus 1. Off came the trains. Fixed charges once partially earned became totally lost and the traffic shot downward as though a trap had been sprung beneath it.



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EVEN at the risk of seeming pedantic I am moved to write down that the only way to stop this huge monetary waste and to solicit patronage is to restore to the schedules every train which can earn its operating expenses and some part, however small, of its investment costs. No longer can the steam lines continue the outworn policy of inaugurating more trains only after the traffic has warranted them. If they would bid for their fair share of passenger transport the expansion of train service must antedate the necessity for it.

But although this expansion of service is a prime necessity to the bid for new business it will of itself be but a futile gesture if John Citizen feels that he is still to be subjected to those century-old abuses of dust cinders, bad air, dim lights, and dawdling locomotion. A few air-conditioned limiteds will not entice John to ride the hundreds of stuffy locals, nor will a rail liner which makes the Los Angeles-New York run in fifty-six hours make him more amenable to his slow-poke suburbans. He has a right to expect fast, clean, and comfortable transport from every train on the line. If he doesn't get it he will turn to other mechanisms.

ACTUALLY there are but few trains which are run as fast as their locomotives can easily pull them. Locals, Chicago-Geneva, Illinois, 35 miles, 7 stops, one hour and forty minutes, average speed 21 miles an hour, just 50 per cent faster than street cars run through crowded cities. The Duluth-Superior Limited runs 468 miles from Chicago to Duluth in fourteen hours and twenty minutes,

while the motorist can complete the journey in ten hours flat. In fact, where the highway parallels the railway automobiles are constantly overtaking and passing the splendidly equipped limited which has a maximum scheduled speed between stations of 40 miles an hour. The Alton Limited averages 45 miles an hour over a route as flat as a billiard table and as straight as a ruler; which is no better than an auto can be driven over the same terrain. The 20th Century and the Broadway between Chicago and New York are no whit faster than they were thirty years ago.

To adjust this slow-motion transport to the rapid tempo of modern life the railroads need purchase no new equipment, for the steam locomotive can tow its train as fast as the much-advertised rail liners.

LAST July a Chicago, Milwaukee, St. Paul and Pacific standard train hit 103 miles an hour and completed the Chicago-Milwaukee run at an average of 77 miles an hour. Of course, the run was merely a test, put on, as one official said, to see just what could be done with steam equipment. Apparently the historic run of the New York Central's locomotive 999 which towed the Empire State Express 112.5 miles an hour forty years ago had been lost to memory. So too, had been forgotten the record-breaking specials of "Death Valley Scotty" and E. H. Harriman. John Citizen, however, remembers these records. He scouts the idea that these high speeds cannot be maintained regularly without an undue increase of track maintenance caused by the pounding of the locomotive. All



Good Service within Easy Reach

"NOT until the steam lines have been able to see eye to eye with John Citizen and to do their best in providing for him the fast, clean, comfortable travel which he has a right to expect, can they hope to regain his patronage. To give him that service they need but little money and practically no new equipment."

right, he counters, take the pound out of the engines by replacing the heavy steel connecting and side rods with similar parts of the feather-weight alloy steels now used in streamline train construction.

IF it is true that the pounding of the locomotive is responsible for 30 per cent of all the wear and tear on the track, then the reciprocating parts of every engine, both freight and passenger, should be lightened, not so much to permit higher speeds as to afford the savings of millions of dollars annually now spent on maintenance of way. And one might point out, it would be a very fine piece of business for the locomotive builders.

Nor is John convinced that the slow speed of local trains is due to the slow acceleration of the steam engine. He knows that the trouble lies not in the engine but in the train. As soon as the car stops moving all of the lubricating oil is squeezed out from between the old-fashioned brass journal bearings and the wheel axles.

When the locomotive starts up it must actually *skid* its train forward against the friction of these dry metallic surfaces. Not until a speed of 30 miles an hour is reached is sufficient oil being swept round the axles to provide good lubrication. Even the veriest layman in mechanical engineering matters realizes that with such bearings, smashed couplers, hot-boxes, slow acceleration, costly delays and repairs must be the rule of the railway day.

BUT while the roller bearing at speeds above 30 miles an hour turns no more easily than do the present journal bearings, it can be started from rest with but one sixteenth as much power. Clearly the roller bearing will give its greatest benefits of fuel-saving, reduction of repairs, and speeding up of acceleration when it is applied to local and suburban and freight cars which run at low speeds and stop frequently. Yet the carriers are busy installing these splendid devices on long-run,

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high-speed limiteds where they will do the least good.

Mr. Citizen knows these facts. He can push his own automobile single-handed because it has roller bearings. He has seen motion pictures of a 250-ton Timken roller bearing locomotive being pulled with a hunk of clothesline. He knows, too, that the axle bearing is the most important adjunct of any mechanism which rolls on wheels and he knows that the American Railway Association has not improved the specifications of bearing in the last fifty years. No wonder he smiles ironically when some old-time railroader tells him that the 5:15 can't be operated any faster because of its many stops and slow acceleration.

BUT actually neither the replacement of the locomotive side-rods nor the adoption of the roller bearing is necessary to increase the speed of most passenger trains by so much as 30 to 100 per cent. All that is immediately needed is to revamp the schedules and to drag open the throttle. When that simple feat has been achieved the roads can expect to feel the rejuvenating effects of the vitamins of increased passenger business.

And expectation is about all they will get or deserve for Mr. and Mrs. Citizen are still very much averse to being showered with soot and cinders from the locomotive and dust from the roadbed. Presumably the carriers assumed that 100 years would be long enough to accustom most travelers to these hardships. But Americans are a stiff-necked and rebellious people. They still resent being smutted up by some corporation to which they are

paying good money for transportation. Recently the railways have been apprised of the fact and are making real efforts to stop the nuisances.

ONE steam line has taken to oiling its roadbed and improving its locomotive stoking practices and so has reduced dust and cinders about "90 per cent." Apparently these efforts have been insufficient in the minds of the administrators because they now plan to install air-conditioning apparatus in all cars. That apparatus will cost \$6,500 to \$10,000 per car and requires about 10 per cent more power from the locomotive, rather astounding expenditures, we must concede in these days, for carriers which presumably should be looking for every means of reducing operating expenses and, at least, holding investment costs down to their present level.

Not that there is anything mechanically wrong with the air-conditioning equipment. It works well enough. The point is, that railroads which do not operate through desert country can never get their money's worth out of the apparatus. People are not going to ride the trains because they have been air conditioned but they will refuse to ride them if they must still suffer from soot and dirt.

Once this is recognized, we can expect to see the carriers abandon the philosophy of spending more money to surmount a difficulty and to adopt the more practical one of removing the undesirable conditions.

IT is far more practical to eliminate soot and cinders by converting every passenger locomotive to oil fuel

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at \$5,000 a piece than it is to provide air-conditioning equipment for every passenger car at \$10,000. The benefits of that conversion can hardly be equalled by any other improvement of rail transport. The locomotive builders will receive a fine piece of business in rebuilding tenders and fire-boxes in times when the sale of an entire new engine is next to impossible. And the advertising value of the announcement that on and after a given date every passenger train, limited, local, and suburban, will be forever free from the nuisance of engine dirt, is almost beyond reckoning.

For those lines, ballasted with crushed stone, the change from coal to oil fuel will be sufficient, but for those with cinders or sandy gravel ballasting the dust from the roadbed will remain a problem which can easily be solved by the car builders. All that is needed is a light steel dust protector which will extend from the car floor to within a few inches of the track. Why this simple means of keeping the dust beneath the cars has never been adopted will probably remain one of the unsolved mysteries. But it is not too late even now.

ONE item more remains to be corrected; the overheating of cars in the summer time. The railway passenger coach, being dark in color and dull in finish, by reason of its

coating of dust, is almost what scientists call a "perfect black body," that is, one which will absorb all of the heat and light which falls upon it. Naturally cars stored in unroofed yards under a blazing sun assume temperatures far higher than that of the air about them. But if all the passenger car storage yards were roofed over, the coaches could not overheat.

Consider a typical riding experience. Each summer I must travel to Peoria. The best train leaves La Salle street station at 5 P. M. I must leave my office early. The train has been standing in unroofed yards all day and the temperature inside the cars is frequently more than 100 degrees, although a cooling breeze may be blowing from the lake. The engine burns a particularly dirty kind of coal, and the track is ballasted with cinders. I can open the windows and become pot black or I can keep the windows closed and gasp for air.

INEVITABLY I choose my automobile, though I have no use for it in Peoria; though I loathe driving; though I can save neither money nor time, and though it is more hazardous.

But suppose the train speed should be increased from 40 to 60 miles an hour. Suppose further that the engine were converted to oil fuel and that the train had been housed in



Q "It is far more practical to eliminate soot and cinders by converting every passenger locomotive to oil fuel at \$5,000 a piece than it is to provide air-conditioning equipment for every passenger car at \$10,000. The benefits of that conversion can hardly be equalled by any other improvement of rail transport."

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train sheds all day. The cars would still be a tolerable 80 degrees though there might be no cooling breeze from Lake Michigan. And further suppose that the cars had been equipped with dust protectors. I could open the windows and enjoy a clean, fast ride. Under such circumstances can you imagine my turning to my automobile? Neither can I.

As I write these lines the Burlington puts into service the first stream-line train between Kansas City and Lincoln. Its running time is faster than the steam trains which it displaces. Its operating costs are much lower. It is expected to lure to the rails much of the traffic now carried by busses.

BUT it is no faster than the steam trains could easily have been run. It is no cleaner than a steam train drawn by an oil-burning locomotive. It has neither the riding qualities nor the safety in a collision of the conventional rolling stock. More, from the railway point of view, the much-talked of economies of operations must save enough money over the operating costs of steam engines to pay all of the fixed charges on the two retired trains and to pay its own fixed charges and operating costs and still make a substantial margin of profit. This is impossible since steam-operating costs are less than fixed charges, so that even if the operating costs of the rail liner were zero it could not save enough money to pay its charges and those of the retired trains.

Recently two records for overland transport have been established. A Union Pacific rail liner made the

transcontinental journey in fifty-six hours and Captain Rickenbacker drove a transport plane the same distance in twelve hours. The plane was faster, safer, and more comfortable than previous planes. It was a fine argument for more air travel. The rail liner was less comfortable, less safe, and very little faster than present trains might be operated. It was no inducement for more rail travel.

NOT until the steam lines have been able to see eye to eye with John Citizen and to do their best in providing for him the fast, clean, comfortable travel which he has a right to expect, can they hope to regain his patronage. To give him that service they need but little money and practically no new equipment. If they continue to pursue the philosophy of spending more money to overcome disadvantages which are in no wise inherent to the present rolling stock they will continue to lose both money and business. John will have none of them. Eventually will come government ownership and operation which will be no whit better if, indeed, as good as backward private management.

But to those roads which honestly strive to give John the best that can be had from George Stephenson's splendid mechanism, the steam-driven steel wheels on steel rails, will come very properly all those essential vitamins of growing passenger traffic to which they can rightfully lay claim. That fine achievement will be the result of the intelligent use of the present facilities, not the unthinking purchase of new equipment.

Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

CHARLES M. SCHWAB

"We seem to be at a standstill."

L. J. DICKENSON
U. S. Senator from Iowa.

"An emergency cannot last five years."

HERBERT HOOVER

"There is no real recovery on inflation medicine."

CARTER GLASS
Senator from Virginia.

"The abrogation of the gold contract was a cheat and a lie."

HENRY W. TOLL
*Executive Director, American
Legislators' Association.*

"The end of state regulatory supervision and control of public utilities has by no means been sighted."

DAVID E. LILIENTHAL
*Director and General Counsel
Tennessee Valley Authority.*

"People are beginning to question whether the principle that monopoly benefits the public is really working out."

*Daily Phoenix
Muskogee, Okla.*

"The objection to public ownership is that nobody thinks of it till some smart guy builds up something worth owning."

GOVE HAMBIDGE
Magazine writer.

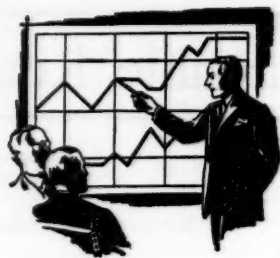
"If off-street parking must become well-nigh universal, with no choice in the matter—and all signs point in that direction—it might legitimately be regarded as a sort of public utility."

ARTHUR MORGAN
*Chairman of the Tennessee
Valley Authority.*

"Constant preaching by the private utilities that the government is corrupt is doing more harm than communistic propaganda. When the private utilities cease slandering the government, we shall advance infinitely further."

JOSEPH B. EASTMAN
*Federal Coördinator of
Transportation.*

"The danger that I see (in public ownership of railroads) is that there would be peculiar temptation, under present conditions . . . to utilize the railroads, beyond the limits of any sound plan, as a convenient means of reemployment or of resuscitating the capital goods industries, all to the tune of a large and mounting deficit which the taxpayers of the country would have to meet."



Scrambling Write-ups and Rates

Deception of the public by misleading inferences as to the bearing of accounting practices by public utilities on charges for their service—inferences which arise from reports of certain governmental authorities which in the opinion of the author ignore the work of the various state regulatory bodies, and also the existence of the courts which have the final word on rate questions.

By RALPH E. BACH

PROPAGANDA, simply defined, is "an institution or scheme for disseminating a doctrine or system." The doctrine or system in this instance is the ownership and operation of the public utility industry by the government. The power policies of the administration have already succeeded in lopping off billions of dollars in quoted values of utility securities—impairing not only the investments of over ten million security holders directly but those of millions of others indirectly.

Hardly a day passes without one or more releases to the press by one or more Federal investigating committees, commissions, or bodies. It is propaganda on a huge scale.

What does it matter if the true facts must be distorted, or if half-truths are presented as facts so long as the sacred goal of public ownership is the fount of inspiration? Granting the sincerity of the administration to assure fair and equitable rates to the public, its methods of attaining this

goal can hardly be condoned, if in the process billions of dollars of investment values are destroyed.

To date the Federal Trade Commission has issued over 250 attacks against the public utility industry, not the least of which is the matter of write-ups. The bare statement of facts in the commission's report leaves much to the imagination of those not versed in such matters as rates, capitalizations, and write-ups. Such statements as contained in this report are hard to refute in the sense that once the impression is made on the public consciousness it is difficult to eradicate that impression.

THE commission in its report charges the industry with making write-ups of \$1,463,334,892 in its top-holding, sub-holding, and operating companies. Of this total, operating company write-ups amounted to \$839,395,343 and attention was called to the fact that there is a direct relationship between the cost of a com-

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pany's property and the rates which it may be permitted to charge for the service rendered. The inference here is obvious and misleading to the uninformed—for it implies that the entire amount of write-ups has been included in the rate base of the industry.

The commission further asserts that in many states there is little, if any, effective regulation of operating companies, and consequently the regulating bodies may be "influenced psychologically" by the write-ups in determining property values for rate making. This is a sweeping indictment of the excellent work which has been performed by state regulatory bodies generally in a field beset with many practical difficulties.

We are concerned here only with write-ups of operating utility companies as rates for service are based on the property of the operating unit and inflation of the assets of one or more superimposed holding companies can have no effect on the issue, although it might be pertinent to the investor in the holding company—but that is another story. Let us pause for a moment to repeat a few simple precepts in rate making, which everyone familiar with the problem knows but which have apparently been ignored in most of the attacks made on the industry.

IN the first place rates are not based on the plant account as shown by the books of the company, or upon its capitalization. The basis of calculation as to the reasonableness of utility rates is the fair value of the plant and property used and useful in rendering the service.

No given formula can be applied.

The courts have repeatedly stated that each case must be determined on its individual merits. The two most important factors in establishing a fair value for rate-making purposes are the actual costs of construction and the reproduction value as determined at the time of the rate hearing, less depreciation. But neither factor is controlling. Chief Justice Hughes has stated:

The weight to be given to actual cost, to historical cost, and to cost of reproduction new, is to be determined in the light of the facts of the particular case.¹

It is rather obvious that the only influence that property write-ups could exert upon fair value would result from failure to ascertain original cost and failure to make a complete inventory of plant and equipment.

A write-up is in effect merely a bookkeeping transaction and may under certain conditions be fully justified by the facts in the case. It is a practice which has been fairly common in the business world to reflect increased valuations on a company's books.

WITHOUT condoning or upholding the practice as part of accounting procedure there would seem to be no reason to single out the public utility industry above all others and point the finger of suspicion at book valuations and leave the inference to be drawn that property write-ups have all been reflected in the rate structure of the industry. There is no evidence of exploitation of the consumer by property write-ups. A large part of the savings resulting from increased

¹ Los Angeles Gas & E. Corp. v. California R. Commission, 289 U. S. 287, P.U.R.1933C, 229.



Consumers Not Exploited by Write-ups

"A WRITE-UP is in effect merely a bookkeeping transaction and may under certain conditions be fully justified by the facts in the case. . . . There is no evidence of exploitation of the consumer by property write-ups. A large part of the savings resulting from increased efficiency and technological advancement has been passed on to the consumer in constantly decreasing charges for service."

efficiency and technological advancement has been passed on to the consumer in constantly decreasing charges for service.

Statistics covering the average cost of electricity for household use, compiled by the Edison Electric Institute, reveal rather conclusively the benefits which have accrued to the consumer. Since 1882 there has been a steady downward trend in the average cost per kilowatt hour from 25 to 7.3 cents in 1925. Data since 1925 cover the entire industry and, since that year, the average rate has declined from 7.3 to 5.3 cents per kilowatt hour. Furthermore all during the World War period when prices generally were greatly inflated, utility rates were undergoing further deflation. Compared with pre-war figures domestic electricity costs at the end of 1933 were 37 per cent below the 1913 average, while the cost of living index of the U. S. Bureau of Labor Statistics was still 35 per cent above the 1913 average.

How can the administration's drive

for lower rates be reconciled with its frequently expressed goal to effect a rise in the general price level so as to ease the burden of the debtor and promote the general welfare? If utility rates were restored to 1926 levels, householders would have to pay approximately \$200,000,000 more annually than actual billings last year.

ANOTHER charge made by the FTC in its report is that it has been the practice generally of the controlling interests to write up the value of fixed assets on the books of merged or consolidated companies. These write-ups in most instances, it holds, were "based on nothing more than 'optimistic judgment' of the values of the properties being unified, or as the result of so-called 'horseback appraisals,' that is a superficial inspection of the properties by their engineering staffs."

Properties of operating companies in smaller communities were acquired in many instances as "going concerns"

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at prices which had to be negotiated. The price paid was frequently more than the cost of constructing the property and in some cases the price paid was so high that the return at the time was far below a reasonable one. Yet within a fairly short time, even with further reductions in rates, earnings in many instances reached a level which represented a reasonable return on the investment. The Supreme Court has repeatedly refused to allow original cost (and as a corollary any write-up of property values) to be a limiting factor in arriving at present value for rate-making purposes. In the Minnesota Rate Cases in 1913,² the court stated:

It is clear that in ascertaining the present value we are not limited to the consideration of the amount of the actual investment. If that has been reckless or improvident, losses may be sustained which the community does not underwrite. As the company may not be protected in its actual investment, if the value of its property be plainly less, so the making of a just return for the use of the property involves the recognition of its fair value if it be more than its cost. The property is held in private ownership and it is that property, and not the original cost of it, of which the owner may not be deprived without due process of law.

THE war on the private utilities is being waged on many fronts but apparently with a single purpose in view—eventual public ownership and operation of the utilities. The Power Authority of New York, not to be outdone by the Federal Trade Commission has presented a detailed analysis of the financial structure of the electric utilities in New York city, arriving at the conclusion that a fair rate base for their combined properties would be about \$450,000,000, or \$279,000,000 less than the figure sug-

gested by Floyd L. Carlisle, head of the Consolidated Gas system. The Authority makes the arresting statement that the system has made \$172,000,000 in excess profits since 1907, computed only on the basis of the "water" that was put into the capitalization when the original mergers were consummated. The report asserted further that if the city had bought the property for book value in 1907, it would now own the system debt free,—a purely hypothetical assumption, to say the least, for even if the city had purchased the properties it is not likely that it would have obtained them at book value, and it is highly questionable whether municipal operation would have been as successful as private management.

The Authority's reasoning is along the same lines as that of the Federal Trade Commission. The fixed capital as shown on the books of the company is taken as a base figure and the statement made that these values have been inflated by writing up construction costs. In short, the impression is given that the rates charged for service over a long period of years have been excessive because of their dependence on these stated values.

THE contentions made in these reports ignore the work of the various state regulatory bodies and also the existence of the courts which have the final word on disputed rate questions. The line of reasoning followed and the arguments presented in support carry a faint suspicion that the conclusion was reached first and subsequent investigation carried on for the purpose of confirming that conclusion. And that is not to say that the

² 230 U. S. 352, 57 L. ed. 1511.

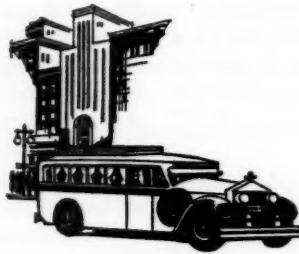
PUBLIC UTILITIES FORTNIGHTLY

ethics of the utility industry have been any better or any worse than those of other big industries.

Utility managements' first responsibility has been to stockholders—those who furnished the capital which has made possible the growth of the industry and the furnishing of adequate service at reasonable rates. And to assure the latter and protect

the consumers' interests, regulation was placed in the hands of the state commissions.

The record of the industry in expanding its vital service at constantly decreasing rates both in urban and rural communities would appear to support the conclusion that the consumers' interests have been well protected—politics notwithstanding.



Facts about the Common Carriers

LICENSE fees for motor vehicles in the United States in 1934 totaled \$315,000,000, as compared with \$301,932,039 in 1933.

THE public carrier (revenue) bus operations in 1934 employed 94,532 persons, as compared with 85,578 employees in 1933 and 101,000 in 1931.

OF the 43,000 busses used in public revenue operations, 17,380 are used in intracity, 22,820 in intercity, and 2,600 in sightseeing and irregular transportation service.

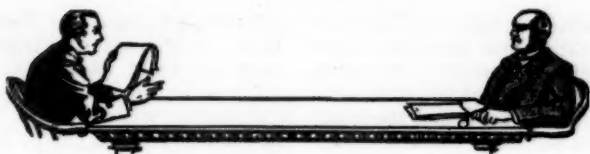
MOTOR carriers (common carriers and sightseeing) owned 29,900 of the 43,000 busses used in public revenue operations in 1934. Electric railways owned 11,600 busses and steam railroads, 1,410.

BY producing and delivering 3,886 common carrier busses in 1934, bus manufacturing nearly doubled the previous year's output and actually succeeded by 15 units the combined production of 1932 and 1933.

OF the 401,665 miles of route operated by busses in public service in 1934, intercity busses accounted for 354,000 miles, sightseeing and irregular bus service for 28,000 miles, and city transportation for 19,665 miles.

A TOTAL of 8,401 chassis and 8,470 bodies were produced by all bus manufacturers (common carrier and school service) in 1934. This is about double the 1933 production and approaches the 1929 boom period record of 9,000 units produced and delivered.

TAXES assignable to operation of public carrier (revenue) bus operations in 1934 totaled \$32,137,000. The total gross revenue for such carriers in 1934 was \$310,600,000. Thus taxes represent slightly more than 10 per cent of the income of this public utility service.



Financial News and Comment

By OWEN ELY

The Southern California Edison Refunding Issue

THE \$73,000,000 Southern California Edison issue of $3\frac{1}{2}$ per cent refunding mortgage bonds due 1960 was offered April 22nd at $98\frac{1}{2}$ by a syndicate headed by The First Boston Corporation, underwriting discounts or commissions totaling $2\frac{1}{2}$ points. While the bonds were doubtless fairly priced in relation to prevailing levels for similar issues, retail distribution of the offering proved a little slow, apparently due to failure to make sufficient allowance for the huge size of the offering, and the unpopular feature of offering the bonds flat (interest not beginning until two months after the delivery date).

The word "gold" was retained in the title of the bonds, presumably because the indenture so required, but in small type it was stated that the bonds would be "payable pursuant to Public Resolution No. 10 of the 73rd Congress of the United States in lawful money of the United States, which is at the time legal tender for public and private debts."

As now customary, newspaper advertisements contained no information whatever about the company, its earnings record, or the mortgage security. The new style "hedge clause," in fashion since operation of the Securities Act, read as follows:

This advertisement appears as a matter of record only and is under no circumstances to be construed as an offering of these bonds for sale, or as an offer to buy, or as a solicitation of an offer to buy any of such bonds. The offering is made only by the prospectus. . . . Copies of the prospectus

may be obtained from any of the undersigned.

Such language seems worthy of the traditional Philadelphia lawyer.

It appears likely, in the writer's opinion, that under the new practice brought about by the Securities Act the average investor will obtain less pertinent information about new offerings than under the old régime. The information will be available, but he will not take the trouble to ferret it out in the prospectus.

Formerly it was always possible to obtain at least a general idea of earnings, operations, etc., from the newspaper advertisement and the offering circular. It seems likely that many investors will now purchase bonds on the basis of (1) the general repute of the company, and (2) confidence in the underwriting houses, rather than to secure and study the long and detailed prospectus in search of the essential information formerly summarized. In fact, in a rising market if they take time to study the prospectus carefully, the bonds may all be sold by the time their decision is made, and they may have to pay a premium to buy in the open market. The prospectus may very well come to occupy the same position as the Stock Exchange listing statement—a repository of useful information, but too detailed for practical use by business men.

Prospectus—New Style

SOUTHERN California Edison's 41-page prospectus contains a wealth

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of information, although some of it appears overdetailed and poorly arranged for easy grasp of essentials. Obviously every effort has been made not to overlook any "material fact" and the booklet has been made more readable by using large type, with ample headings indexed on the inside cover page. It might have been helpful had the short summary of earnings on page 4 contained a reference to the detailed income and profit and loss statements on pages 34-7. As was to be expected, the financial statements are too extensive (although doubtless much less voluminous than in the registration statement); all statements are presented practically in duplicate, the figures in the corporation and consolidated statements differing by only about 1 per cent.

In the previous issue of the FORTNIGHTLY, the writer made some comment on current practices with respect to depreciation accounts. The prospectus on pages 4, 5 explains the method used by Southern California Edison. Prior to 1931 the company made provision for depreciation on a 6 per cent sinking-fund basis, but in later years the provision was changed to one eighth of gross operating revenues, for the reason that

The company's past experience had shown that retirements of property were made largely on account of inadequacy or obsolescence, that the amount of such retirements varies with the rate of use of property and growth of business and that such rate of use of property and growth of business is reflected in gross earnings.

It may be mentioned that the allowance for depreciation in 1934 was \$4,489,296 or only about 1.35 per cent of the tangible plant and equipment account. This ratio was not indicated in the prospectus, but it was mentioned that

For Federal income tax purposes the company follows the straight-line method of computing depreciation, which results in a substantially larger annual provision than the 6 per cent sinking-fund method or the method presently followed by the company.

Based on the 13½ tax rate the \$9,-

000,000 "provision for Federal income taxes" would seem to indicate net income of about \$4,000,000 less in the Federal return, than in the published statement; whether this reflects the larger depreciation charge is, of course, open to conjecture.

In addition to the usual information about the company's business, capitalization and record, the security for the bonds, etc., the prospectus presents information (both favorable and unfavorable) which in the past has seldom been vouchsafed to investors. Thus there are frank discussions of municipal ownership in California, of possible earthquake damage to the company's properties, details of franchise and tax problems, and a careful analysis of the possible effects of Boulder dam on future earnings.

In its frank and detailed discussion of the municipal ownership problem in California, the prospectus mentions that Los Angeles, Pasadena, and several smaller cities own and operate (partially or completely) electric distributing systems, some of them buying at wholesale from the company. Los Angeles buys about two thirds of its power at wholesale and the company expects to lose this business, probably early in 1936. The prospectus indicates that there has been little growth in municipal ownership in the company's territory in the last twenty years but it also admits that

these official discriminations and attacks upon power companies, in the opinion of the officers of the company have tended to cause consumers to lend a more willing ear to rate criticisms and proposals for experiments in tax-free, governmentally financed electric service.

A RATHER amusing comment under the heading "Currency" on page 27 is the following:

In the opinion of the company there is some danger of further depreciation in the value of the medium of exchange in the United States—commonly referred to as inflation. The company is unable to measure the extent of the danger and cannot express a definite opinion thereon, but draws attention to the possibility.

FINANCIAL NEWS AND COMMENT

Boulder Dam—A Pre-New Deal Power Project

THE prospectus described above gives an interesting summary of the Boulder dam project and the arrangements made by the Federal government to distribute the electricity generated at the dam. In this instance (unlike TVA) the Federal government did not undertake to set up retail "yardsticks" or go broadly into the utility business but confined itself more closely to its constitutional prerogatives. The Act of 1928 required that before construction was undertaken provision should be made by the Secretary of the Interior for revenues not only to meet expenses but to amortize original cost within fifty years. The government thus did not undertake to generate and distribute power itself, but in 1930 negotiated contracts with various agencies which leased from the United States the privilege of generating power, paying therefor 1.63 mills per kilowatt hour for so-called "firm" energy and $\frac{1}{2}$ mill for so-called "secondary energy."

The contracts were quite involved and cannot be detailed here; the output is to be shared by states, municipalities, water districts, and corporations on various contingent bases.

The discussion of these contract arrangements, while presented in commendable detail, does not seem to give a very clear picture of the possible effects on Southern California Edison's future earnings. It seems evident, however, that the project was planned and the contracts entered into before the full effects of the depression were foreseen, and that there may be some surplus of available power when Boulder dam is fully developed. However, it is pointed out that

a period of at least seven years from the present is allowed before the full amount of power contracted for by the various agencies is required to be taken and paid for. It is entirely possible that some of the power will be used to supply demands elsewhere than in Southern California. . . . Attention should also be directed to the fact that the company's principal existing

hydroelectric power development is in central California, in the high Sierras. Another possibility is the diversion of some of this central California hydro power . . . to points in central California and replacing it in part in southern California with power from Boulder dam.

An interesting comment regarding cost of power is the following:

When there is added to the 1.63 mills charge for falling water, capital costs for generation and transmission, and the costs of operations, the power from Boulder dam delivered in the company's territory, in the opinion of the company, will not be cheaper than power delivered from the company's existing most economical steam-generating plant so long as fuel cost remains below the equivalent of fuel-oil at \$1 per barrel.

Possible Effect on Public Service of N. J.'s Earnings of Rate Cut Order

IT has been generally contended that the scale of domestic electric rates in New Jersey, averaging about 8/9 cents per kilowatt hour, is too high and President McCarter indicated at the recent stockholders' meeting that some reduction might be necessary. The New Jersey Board of Public Utility Commissioners reached their decision in a 2-year rate case on April 25th, ordering a reduction in annual electric revenues of \$5,176,566, of which about two thirds would apply to domestic consumers whose bills would be reduced about 13 per cent. The reduction was based on a rate base of \$322,625,405 and a fair rate of return of 6 $\frac{1}{4}$ per cent.

It is not clear whether the company, which had claimed a valuation of over \$429,000,000 and a return of 8 per cent, will accept the cut or appeal to the courts. Assuming that it is accepted, revenues would be reduced about 8 per cent. Part of the loss will doubtless be offset by increased business, reduction in Federal income taxes, etc.; the immediate net reduction would amount to about 80 cents a share on the company's common stock, on which \$2.95 was earned in 1934, and on which the current dividend rate is \$2.80. Assuming

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that the dividend were reduced to \$2 this would still yield over 7 per cent on the current price of 28, so that the effects of the reduction appear to have been fairly well discounted. The company would apparently not be affected by pending Federal holding company regulation to any important extent, since its operations are intrastate.

1935 Earnings

ONE of the first of the large utilities to report earnings for 1935, Consolidated Gas Co. of New York, in the three months ended March 31st showed a gain over the same quarter last year of about 10 per cent in electric revenues, which was partially offset by losses in gas, steam, and miscellaneous revenues. Operating expenses increased nearly 5 per cent, depreciation 23 per cent, and taxes about 19 per cent, with the result that net income after charges was reduced approximately 10 per cent. After allowance for preferred dividends, the company earned 97 cents a share against \$1.10 in the same period of last year. In the twelve months ended March 31st earnings were \$2.03 against \$2.99, a reduction of nearly one third.

Rayburn Bill Also Affects Industrial Companies

THE sweeping character of the Rayburn Bill is becoming more evident day by day. Industrial executives are now beginning to realize that the bill would give the Federal Power Commis-

sion broad inquisitorial powers over them, since it is provided that any person engaged in performing service, sales, or construction contracts for utility companies (involving use of the mails or interstate commerce) cannot do so "in contravention of such rules and regulations or orders regarding reports, accounts, costs, competitive bidding, disclosure of interest, duration of contracts and similar matters as the Federal Power Commission shall prescribe." According to the *New York Journal of Commerce*, "Under interpretations of this language it would appear that the purveyors would have to conform to the requirements of the commission, justifying their sales, rather than that the public utilities company justify its purchases, no matter what the article."

Taxation—A Staggering Utility Burden

THE extraordinary burden of taxation now borne by the utility companies in relation to their gross business is indicated by the fact that in the first quarter of 1935 Consolidated Gas of New York's tax bill was equivalent to nearly one fifth of operating revenues, 44 per cent of operating expenses, and over 90 per cent of net income. Some comparisons for the calendar year 1934 are tabulated below (000's omitted):

It is difficult to make extensive comparisons with industrial companies because many of the latter include taxes (other than Federal income taxes) with expenses.

If the taxes on operating company

	1934 Gross	Total Taxes	Percentage of Gross
Consolidated Gas Co.	\$22,012	\$3,090	14.0%
Columbia Gas & Electric	77,428	8,515	11.0
Pacific Gas & Electric	87,555	11,499	12.6
Southern California Edison	35,914	4,759	13.2
American Teleph. & Teleg. (Bell Sys.)	887,545	89,485	10.0
Pennsylvania Railroad	368,893	26,589	7.3
All Class I Railroads	3,271,000	239,000	7.3
Texas Corporation	272,619	8,189	3.0
U. S. Steel Corporation	591,609	28,844	4.9

dividends received by holding companies (now suggested in Congress in connection with possible revision of the Rayburn Bill) should be enacted, the tax burdens of the utilities would be still further increased.

Are Holding Companies to Be Taxed Out of Existence?

ACCORDING to Dow Jones the administration may ask the House Ways & Means Committee, when it takes up tax legislation, to place a heavy tax on dividends received by one company from another and to make concessions on stock transfer taxes, such legislation being intended to discourage holding company operations and hasten the dissolution of intermediate holding companies.

This would serve as a substitute for provisions in the Rayburn Bill for dissolution of holding companies, it was reported. The Senate Interstate Commerce Committee is reported to have indicated by an informal poll of 14 to 11 its probable intention to drop the provision for abolishing holding companies.

John F. MacLane, counsel for the Electric Bond & Share Co., pointed out in the Senate Committee hearings that the utility industry in thirty years had multiplied its investment about thirty times, its output thirty-four times and its number of customers almost fifty times. "The total capital investment (in electric utilities) has grown from \$483 millions in 1902 to \$12,500 millions in 1932," said Mr. MacLane; "these financial requirements are utterly beyond the investment resources of the territories served by any of these (small operating) companies. It is this fact which more than any other has given rise to the holding company system."

President Loomis of the Connecticut Mutual Life Insurance Co. declared that, in his opinion, passage of the bill "will result in drying up one of the most important and satisfactory outlets for further investment of institutional trust funds."

New Underwriting Policies

GOVERNOR Lehman has been considering the Brownell Bill passed by both houses of the New York Legislature, which gives the public service commission the right to order public sale of utility securities, with submission of sealed bids, "if it determines that the public interest so requires." The sale could take place not less than five nor more than thirty days after weekly notice had been published for three successive weeks. Bids upon any such sale might be conditioned upon award of all or any part of an advertised issue, the highest bid to be that which, after deducting the amount of the premium (if any) provides the lowest interest rate to the public utility company.

The latter provision, which apparently would place bidding on a current-interest rather than an amortized cost basis, appears to illustrate the lack of familiarity with technical problems frequently reflected in such legislation. While the act, if signed by the governor, will apply only to such utilities as are subject to the public service commission of New York, it is of interest because it might furnish the basis for similar legislation in other states. Such provisions would further complicate utility finance if the Rayburn Bill is also adopted, since state and Federal regulations regarding security issues might easily conflict in many details, causing much hardship and needless expense in arranging the details of security flotations.

It is true that good results have probably been obtained through the use of competitive bidding in some large municipal issues, but such issues are subject to little regulation or delay.

According to the *New York Times* the Commonwealth Edison's \$29,000,000 proposed refunding operation will be handled on an allotment basis, giving preference to Chicago and Midwestern banking houses over Eastern underwriters. The offering syndicate will have no nominal head, participating banks being listed in alphabetical order.

What Others Think

Testimony on the Rayburn-Wheeler Bill before the Senate Interstate Commerce Committee

FOLLOWING the conclusion of the six weeks' hearings before the House of Representatives Interstate and Foreign Commerce Committee on the so-called Rayburn-Wheeler Bill to regulate holding companies and interstate gas and electric utilities, Chairman Wheeler of the Senate Interstate Commerce Committee opened hearings on the proposed bill on April 16th. The Senate hearings were comparatively brief by reason of the fact that most of the pertinent testimony of both the proponents and opponents of the bill had already been put into the House Committee record. As it was, the Senate hearings, which were concluded on April 29th, brought forth testimony that was largely a repetition in substance of the testimony adduced in the House.

The first witness for the proponents of the bill was Dr. Walter M. W. Splawn, member of the Interstate Commerce Commission. Dr. Splawn explained the purpose of the bill and analyzed the defects of the holding company device which had resulted in the demand for such legislation. Commenting specifically on Title II, Dr. Splawn made an interesting point to the effect that state commissions are frequently unable to check up on write-ups and other irregularities in accounting resulting from holding company management, by reason of the fact that "a state commission is usually suffering from malnutrition." Dr. Splawn conceded that state commissions have "wrestled with these problems most heroically," but are up against a stone wall when they attempt to regulate local companies that are tied into big business.

Concerning the usefulness of holding companies, Dr. Splawn remarked: "I

believe that if there had never been a holding company we would have had the very same improvement in the arts (in the public utility field) that we have had."

Dr. Splawn was succeeded by Colonel William T. Chantland, attorney in charge of the legal division of the utilities investigation of the Federal Trade Commission. Colonel Chantland discussed the propaganda activities, abuse of intercorporate contracts, and other evidence of delinquency by holding companies in their relations with operating utilities, as revealed by the Federal Trade Commission's activities.

PROBABLY the most interesting witness before the proponents of the measure before the Senate Committee was Thomas D. Corcoran, counsel of the Reconstruction Finance Corporation, who has been credited with having a great deal to do with drafting the proposed bill. Mr. Corcoran discussed the importance of legal machinery in pyramiding and unscrambling huge holding company structures. He ventured his belief that there is no justification for the holding company system and intimated that it would not be worth the use of the taxpayers' money to attempt the regulation of it as a general continuing system. Referring to the economic and social dangers of the huge concentration of control in the holding company structure, Mr. Corcoran used the term "private socialism," which, he said, tended to squelch individual initiative and placed such powers in the hands of a limited group where there is always danger of its misuse. He pointed out that the holding company could obtain such vast economic pow-

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ers and comparative efficiency as to force out any attempt at independent competition.

In reply to questions from Senator Hastings of Delaware, the witness made a distinction between public utility holding companies and other types of holding companies. While he admitted that there was perhaps an equal degree of concentration in other types of holding companies, he felt that the public utility industry was so intimately connected with the public interest that it required immediate reform. He stated that he was not prepared to testify as to the need for similar reforms for other types of holding companies at this time. In conclusion Mr. Corcoran discussed various means under which holding companies could be liquidated and their assets distributed, or reorganized so as to avoid undue losses to investors.

The last witness for the proponents of the measure was Dozier DeVane, solicitor for the Federal Power Commission, who testified concerning the need for interstate regulation of electric utility service. Mr. DeVane developed arguments to the effect that great care had been taken in drafting the bill to protect state commission regulation as much as possible. Mr. DeVane also defended the so-called "common carrier principle" in the regulation of interstate transmission of electric power, which is included in the proposed law.

FOR the most part, the opponents of the measure before the Senate Committee likewise duplicated in substance the testimony of opponents given before the House Interstate and Foreign Commerce Committee. However, a few points of more than passing interest were developed. On the first day set aside for the opponents, John F. MacLane, well-known New York attorney, offered proof from the legal viewpoint that dissolution of the holding company as proposed in the Rayburn-Wheeler Bill would throw the large number of electric operating utilities into bankruptcy or receivership with disastrous effects on the service rendered to con-

sumers. Mr. MacLane pointed out that the holding company is absolutely essential to supply the capital necessary for the progressive development of the electric power industry.

Refuting charges of alleged unsound capitalization, Mr. MacLane observed that of the 424 major companies reporting to the Edison Electric Institute, bonds in the amount of 8/10 of 1 per cent of the total outstanding bonds of these companies are in default on interest charges, and dividend arrearages have accumulated on only about 4 per cent of the outstanding preferred stock of these companies. In conclusion Mr. MacLane questioned the constitutionality of the proposal to liquidate the holding companies.

On the following day, T. Justin Moore, noted attorney of Richmond, Va., appeared as counsel for the Committee of Public Utility Executives. He urged Congress to adopt the policy of regulation rather than abolition and attacked the holding company bill as drawn as indicating that the purpose of it was not to correct abuses but to promote social theories. Mr. Moore specifically challenged the constitutional power of Congress to condemn to death holding companies and confiscate their property by forbidding the use of postal facilities.

LOUIS H. Egan, president of the Union Electric Light and Power Company of St. Louis, took the stand prior to Mr. Moore and vigorously denied the charge that state regulation of public utilities has broken down. He claimed that such a statement is not only false but is inspired by those who want to submerge the power and authority of the states in favor of the Federal government. Concerning Title II of the bill, Mr. Egan claimed that the Federal Power Commission was insisting on regulation of over 90 per cent of the electric industry, while only 17 per cent of the output crossed state lines, and of this 17 per cent only 1 per cent was sold by unaffiliated companies.

Samuel Ferguson, chairman of the

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board of the Hartford Electric Light Company, next appeared in opposition to the bill on April 24th. By reason of the fact that his own company had been favorably referred to by Dr. Splawn, Mr. Ferguson felt that he was qualified to testify as to the surprise which he felt when he found that under Title I (the holding company division) of the proposed bill his own companies would be classed as full-fledged holding companies, condemned to dissolution. Mr. Ferguson insisted that his own two companies, the Hartford Electric Light Company and the Connecticut Light and Power Company, were legitimate operating companies and should be exempted from regulation under the definition as holding companies under the bill. In addition, Mr. Ferguson defended what he termed many proper and useful purposes of the holding company device. As to Title II, he urged that Federal regulation should restrict itself to filling in the gap left open by the absence of present regulation of interstate commerce, rather than invade the jurisdiction presently exercised by the state commissions.

JAMES Loomis, president of the Connecticut Mutual Life Insurance Company, appearing in behalf of twenty-two other Connecticut insurance companies, testified to the bad effects which he believed the passage of the original bill would have on insurance companies, not only by way of impairing the value of utility securities now held, but also by drying up one of the most important outlets for investment of institutional trust funds.

Edmund W. Wakelee, vice president of the Public Service Corporation of New Jersey, took the stand to testify as to the lack of necessity for eliminating the holding company in New Jersey, in view of the adequacy of commission regulation in that state to remedy any of the abuses charged.

Fred N. Oliver, counsel of the National Association of Mutual Savings Banks, protested against the elimination of holding companies. He said that the

savings banks are not interested in holding companies as such, but are deeply interested in the effect that any dissolution of the holding companies may have upon securities of operating companies. Mr. Oliver stated that the institutions he represented had considered the matter deliberately and felt that there was grave danger of adverse effect on such operating utility securities if the bill as originally drawn were enacted into law.

ON April 25th there appeared in opposition to the bill, Mr. Wendell L. Willkie, president of the Commonwealth and Southern Corporation, who held the witness stand during the entire day, and his testimony was admitted by committee members themselves to be the most impressive offered by the opponents of the bill. Pointing out that through the medium of the holding companies, the operating utilities are able to obtain funds for essential improvements, regardless of the condition of the money market, Mr. Willkie scored a point in his denial of the charge that the holding company device is universally used to "milk" operating companies. On the contrary, according to Mr. Willkie, the Commonwealth and Southern has invested in the common equity of the operating companies which it owns a total of \$96,000,000 for which it did not receive a single additional share of common stock of such companies. The parent company not only loaned money to subsidiaries from time to time at 5 per cent without commissions, but also bought from operating units, in the absence of a ready market, bonds and other securities, the sale of which was necessary for refunding and construction purposes, at not less than the price fixed by the state commission. It was also testified that the Commonwealth and Southern Corporation renders numerous technical services to the subsidiaries entirely without profit through a mutualized service company, the stock of which is owned by the operating companies. Mr. Willkie claimed that there are many oth-

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Washington Herald

BLOWING UP THE DAM

er holding companies beside the Commonwealth and Southern Corporation that maintain the same high standards. He again urged specific recommendations for regulation of public utility holding and operating companies which he had submitted to the House Committee as a substitute for the Rayburn-Wheeler Bill.

QUESTIONED as to whether there is any shortage of electricity in the United States, Mr. Willkie said he was in accord with the statement made by TVA Power Director Lilienthal in 1933 in part as follows:

Looking at the country as a whole, without respect to public operation or private operation, it is perfectly evident that we now have and will have a tremendous surplus supply of electricity.

Ralph B. Fegan, attorney of Houston, Texas, appeared on behalf of the

natural gas industry and pointed out the necessity for the holding company device in modern natural gas operation. Mr. Fegan also objected to the segregation of oil and gas operations that would be enforced under Title I of the Rayburn-Wheeler Bill, and suggested that the government has not sufficient experience in the regulation of either the gas or oil industry to determine a definite policy with respect to those industries.

Clyde M. Reed, former governor of Kansas, appeared on behalf of two organizations of public utility investors. Mr. Reed suggested that state commission regulation would be likely to be invaded by certain provisions of the proposed bill. He felt that if this happened it would be very unfortunate for both the industry and its investors.

Concluding the testimony for the

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Committee of Public Utility Executives, David Friday, economist, replied to testimony that had been previously offered by Dr. Splawn to the effect that operating utilities under holding company control charge higher rates than independent operating units. According to Mr. Friday, out of 140 towns studied, the cost of electricity was less when it was supplied by holding company affiliates in all except two cases. He found that on the average for all the towns the rate for 40 kilowatt hours was 38 cents less for the holding companies and for 80 kilowatt hours it averaged 70 cents less for the holding companies.

Benjamin W. Kerr, president of the Railway & Industrial Engineering Company, testified for the electrical manufacturing industry. He declared that that industry is now confronted with a measure which, if enacted as proposed, will undoubtedly retard recovery and delay the reemployment of many thousands.

JOHN E. Benton, general solicitor of the National Association of Railroad and Utilities Commissioners, testified that the holding company section of the proposed bill goes beyond the regulation of holding companies and imposes restrictions on operating utilities, the operations of many of which are wholly confined to intrastate commerce. He submitted to the committee a detailed list of proposed amendments designed to safeguard state commission jurisdiction.

The National Association of Railroad and Utilities Commissioners favors strict and adequate regulation of utilities by the states to the full extent of their power, and by the Federal government only to the extent that the power of the states cannot control, stated H. Lester Hooker, member of the Virginia State Corporation Commission, who testified on behalf of state commissions of 46 states and the District of Columbia.

Is Gas Holding Its Own?

It should be the policy of every gas company publicity department to refuse to allow any misstatement of fact from any source to go unchallenged. Don't request free newspaper publicity. Buy advertising space and tell your story there. It has been our experience that insistence on accuracy in the reporting of our affairs has made the local newspapers more careful of what they say. Give equal amounts of advertising to critics as well as to friends.

THUS wrote Floyd W. Parsons in the *Gas Age-Record*, calling the gas industry to arms against the recent developments which may or may not prove to be adverse to the interests of the gas industry as distinguished from the electric industry. Like most other utility problems, there is a very serious political angle that gas companies, not only in the United States but in Canada as well, must consider. It is the pressure being exerted by the Federal government at Washington (and the Ontario Hydro Commission at Toronto)

for vast increase in the per customer consumption of electricity.

Advocates of more and cheaper electricity during recent months seem to have taken for granted, and without any qualification whatever, the theory that cheaper rates for electricity will be followed by corresponding increase in per customer consumption almost *ad infinitum!* Of course, a low rate is undoubtedly a leading, if not *the* leading, stimulus for increase per customer consumption in the domestic classification. At least this has generally been true during the past thirty years—especially the more recent years during which so many new load-building electric appliances have been developed and distributed. But will this trend always continue? Are there no other factors to be considered before we embark upon extravagant plans for electric distribution for which there is at present no discernible market? Here is a passage

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from the recent report of the Mississippi Valley Committee of the United States Public Works Administration:

If it be objected that it is not sound economics for the government to build stations when the present generating capacity cannot or does not find a market, the answer is that this criticism places the cart before the horse and ignores the social purpose underlying the policy proposed.

The present consumption of electrical energy is not to be assumed as a base upon which to estimate the demand upon such a system as is here considered. Not only are there considerable areas which have no electric service at all, in particular hamlets and farm districts, but because of the prevailing high rate schedules in areas now served usage is sharply restricted.

Recent studies of domestic consumption in low-cost municipalities demonstrate that the load factor invariably mounts for a preponderant percentage of customers in response to lowered rates, and this affords a reasonably firm base for calculation of future demands.

In Seattle, yearly domestic consumption has reached an average of 1,108 kilowatt hours per home; in Tacoma, 1,550 kilowatt hours. Twenty-six cities of Ontario show an average of 1,779 kilowatt hours, and Winnipeg, with an average net cost of eight mills per kilowatt hour has an average yearly consumption in excess of 4,000 kilowatt hours. It has been demonstrated that it is low rates and not the fact that these cities lie in the belt of high coal costs that accounts for this high average use. When such results are set against our national average of 604 kilowatt hours per year in 1933, a point reached after a slow climb from 339 kilowatt hours in 1920, it becomes apparent that the expectations entertained here are not unreasonable.

The above report dismisses the factor of competitive fuels as having little bearing on the relation between low rates and high consumption and therefore we must presume that the committee considered that factor before making such a conclusion. Nevertheless, William Wren Hay, writing in *The Annalist*, arrives at an entirely different conclusion. He states:

The presence or absence of other sources of energy in a given area has a great deal to do with the consumption of mineral fuels of any kind.

Mr. Hay goes on to remind us that natural gas transmission has surpassed the comparative advance of the

electric industry in the efficiency of long-distance transmission. A few years ago, 100 miles was the outside limit of a practical radius for natural gas pipeline delivery. Today we have 400-mile gas transmission and talk of delivering Texas Panhandle gas to Detroit via St. Louis. It is true, says Mr. Hay, that the rapid growth of electric consumption as a whole has largely been at the expense of the gas industry, which had to surrender its lighting land almost entirely, yet most of the old gas works are still flourishing and will continue to flourish if the government does not interfere with the free play of competition between electricity and gas. Thus, he points out, anyone who cares to verify for himself from studies of electric consumption in Norway, Canada, or the state of Washington, will easily see that areas where per capita use of electricity is the largest are almost destitute of other resources of heat and energy except water power, and where cheap fuels are available the use of electricity is limited more by considerations of utility than by purchasing power.

"If this is so," ask the same gas and coal men, "how could more electric power capacity, whether developed by government or private enterprise, change the economic relation to the detriment of competitive fuels?" There is where the unfair competition angle occurs. Mr. Hay states:

Any interference with the free play of competition between fuels and other forms of energy is bound to introduce distortions and obscure the real situation. In the long run the utility of a supply of heat or energy depends largely upon the merits of the case and efforts to restore a lost competitive position inevitably fail for that reason. NRA promised that all competitive fuels would be placed on a "fair" footing, but a year of study has been fruitless. The agitation has been principally for a tax on one fuel in order to restore former price equalities when, as a matter of fact, it is not the price but the cost of using it that enables one fuel to expand at the expense of another.

Economic feasibility, unfortunately, does not always guide political judg-

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ment. Mr. Hay observes that on the basis of the "fallacy" that low rates must always stimulate increased consumption and that increased consumption thus obtained will ultimately compensate for low rates, "the country has been committed to the expenditure of vast amounts of unearned taxes for building expensive hydroelectric generating plants where the votes are thickest, aiming to provide a surplus supply of very cheap energy."

AN interesting analysis was made by Dozier DeVane, solicitor of the Federal Power Commission, in hearings before the House Interstate and Foreign Commerce Committee on the Rayburn-Wheeler Holding Company Bill (April 14, 1935), concerning the relation of domestic electric rates of the Potomac Electric Power Company, serving Washington, D. C., and consumption in the same city. Mr. DeVane observed that under the widely known Washington plan, the Potomac Electric Company's rates have declined year by year since 1925 until they are today among the lowest in the country for steam generated service. He observed, also, that consumption in the capital city increased year by year and therefore he concluded that it will always be so. He advocated, on the strength of this conclusion, that other companies might go therefore and do likewise if they wanted to drive up their consumption per customer—namely, reduce rates. While this is unquestionably good advice where it can be followed, let us look more closely at the situation in Washington, D. C.

The average domestic use of electricity in Washington, D. C., is about 78 kilowatt hours a month. In Seattle, Wash., where consumption is rather high, the average monthly use is about 100 hours per domestic consumer. Under prevailing Potomac Electric rates, the Washingtonian paid for his 78 average electric hours \$2.82. Now since average consumption is so much higher in Seattle, we could expect to find that 78 hours cost less in Seattle. It does not, it costs more—\$2.96 to be exact.

Seattle rates are cheaper in the higher brackets, but we find, within the 60 to 90 monthly hours brackets, that lower rates prevail in Washington, D. C., while higher consumption prevails in Seattle. Why does the Washingtonian use only 78 when he could use 80 and 90 hours a month at rates lower than the citizen of Seattle (who uses 100)? The answer is probably gas competition. There is in Washington a gas company rendering good service at comparatively low rates for mixed gas. There is also a gas company in Seattle, but the gas rates in Seattle are higher than in Washington, most likely by reason of the fact that the Seattle supply is entirely manufactured. Isn't it likely that the Washington citizen still finds it cheaper to heat water with gas and that the Seattle citizen finds it cheaper to heat water with electricity? Isn't that, for example, the explanation for the failure of Washington electric consumption to match Seattle's electric consumption, at least up to the point where Seattle electric rates begin to get cheaper?

THERE is in all this food for much consideration by gas utilities in view of the political factors which are complicating the "free play of competition." As long as two privately owned utilities, one gas and one electric, can fight it out for competitive business fairly in the same territory, such as in Washington, D. C., neither company, and certainly not the public, can complain. That is what John Stuart Mills would call "a healthy state of competition that leads to greater progress in business, and greater service to the public."

At this point, however, Walter M. Russell, writing in *Barron's* financial weekly, claims that the gas industry may find itself handicapped in the battle for competitive business. He states:

Of far greater importance, however, is the fact that the government by forcing down electric rates is bringing more severe competitive pressure to bear upon the gas industry even where complete independence already exists between the gas and electric

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companies. In most cities lower rates for electric service would require a vigorous fight on the part of the gas company to avoid loss of a large part of the sales of gas for cooking, water heating, and refrigeration. Electric competition for cooking is already serious in nearly all parts of the country. Gas companies are losing business to the electric companies in large cities where special off-peak low rates are charged for current used for water heating in apartment houses, hotels, etc. Lower rates would make this situation acute.

In the field of home refrigeration the situation is perhaps a little different as mechanically the gas refrigerator with its noiseless operation and entire absence of moving parts offers some advantages over the electric boxes, but a sufficiently low electric rate might overcome these advantages and selling points.

Everything, of course, depends on what the electric rates might be. There have been intimations, at least, from government officials that a reduction of 50 per cent in present rates might be regarded as being about right. Tupelo, Miss., a town of six thousand people, owned and operated its electric-power system, purchasing current wholesale from a large power system. Now it buys from the TVA, and under its supervision retails current at half its previous rates.

If the rate were to be cut in half, reducing the cost to \$1.80, or even if it were cut only 25 per cent, reducing cost to \$2.70 per month, it would provide destructive competition to the gas company. There are very few cities where the equivalent amount of work could be accomplished with gas at a cost of \$1.80, or even \$2.70. In the little town of Tupelo an equivalent amount of gas costs about \$3 per month. Naturally in a large city the TVA might be expected to establish rates much below those in Tupelo. It appears well established that drastic cuts in power rates will afford dangerous competition for gas companies in holding their present load, and even more so in securing new customers.

One of the most important considerations is the type and cost of appliance to be sold in promoting the use of electricity. Generally speaking, electric appliances for cooking and water heating have been somewhat more expensive than gas appliances for similar service, and gas salesmen have placed great reliance on this fact. Research work, development costs, national advertising campaigns have all contributed to this end. Now the TVA has sponsored a line of cheap electric appliances which we are informed may eventually become available all over the country. This would render electric competition all the more formidable, partly because there do not seem to be comparable opportunities for a reduction in

the selling prices for gas equipment. Given a sufficiently low rate and a line of cheap appliances and electric service may become exceedingly important. On the whole, this phase of the matter presents rather a gloomy though not a hopeless picture.

FEW tears would be shed by anyone, except perhaps gas utility investors and operators, if electric competition walked away with the competitive business after a fair battle based on economic merits. The difficulty lies in the controversial question of whether low electric rates might not result from indirect government subsidy, or the pressure of agitation for electric rate reductions. The danger to the gas industry is that it will be the target of drastic rate wars, augmented by the fact that the government power program, originally too ambitious, may result in such a large amount of surplus electric supply that it will have to dump power at any price rather than have it go to waste. In Ontario, for example, the provincial hydroelectric commission finds itself running into increasing deficits because it has contracted for more power than it can use. If it fails in its present attempt to solve the problem by repudiating its contract obligations, there remains the temptation to dump this surplus supply in any of the few fields remaining where it still competes with other fuels. It could afford to do this merely on an "increment cost" basis, rather than let the power go to waste.

As far as direct gas competition from the government, there is little prospect that it will assume serious proportions. In the municipal field the prospects for public ownership of gas plants are almost negligible. The proposed Texas-to-Detroit pipe line, to be financed by the Federal government, is the only large project seriously mentioned. It is from the governmental influence on electric rates that gas utilities have the most to fear.

WHAT is to be done by gas utilities in the face of these threats? The situation is far from hopeless. Mr. Russell suggests:

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The first thing which managements should develop is a plan for voluntary rate reductions. It is difficult to say which is the more important in public utility operation, good service or periodic voluntary reductions in rates. Certainly prompt and courteous attention to complaints, uniform quality, and adequate pressure are vitally important for the success of the company. Equally important, however, is the necessity for voluntary reductions in rates as opportunity offers. When the public has learned by experience that management is ever on the alert to find opportunities for granting reductions in rates, it is very difficult to make rates the subject of successful political agitation, which too often results in unwise, unfair, and nonproductive rate cuts.

When a rate cut is forced on a company the credit always goes to some politician or civic group, never to the management submitting to the cut. Occasional, unexpected reductions, offered by the management, create good feeling and opportunities for new business and produce no nourishment for that class, far too large in this country, who seek to live at public expense, by attacking public service companies.

Voluntary rate reductions must, of course, be worked out with the greatest care, and must always justify themselves. The greatest advantage of the voluntary reduction is that the details of the new schedule are entirely at the control of the management which permits emphasis to be placed on whatever portion of the schedule or class of business most needs promotion. The pur-

pose of a promotional rate is, of course, to bring in additional business in any given bracket of the schedule or to create new markets in competitive or undeveloped fields. Such rate cuts are intended and rarely fail to secure the desired accomplishment of an increase in gross revenue and net earnings through largely increased volume.

In addition, the gas men might well heed the advice of Floyd W. Parsons, already quoted. They should lose no opportunity, where they are faced with subsidized competition, to let the public know that it is not a fair fight that is being conducted. If the American and Canadian public are sufficiently informed about this, they may be sporting enough to take the proper measures to see that the inequities are remedied.

—F. X. W.

REPORT OF THE MISSISSIPPI VALLEY COMMITTEE OF THE PUBLIC WORKS ADMINISTRATION. Submitted October 1, 1934. U. S. Government Printing Office.

BENEFICIAL EFFECTS OF COMPETITION IN DEVELOPING OUR NATURAL RESOURCES. By William Wren Hay. *The Analyst*. March 1, 1935.

GAS AND THE HAND OF GOVERNMENT. By Walter M. Russell. *Barron's*. March 18, 1935.

Notes on Recent Publications

BOLSHEVISM, FASCISM AND THE LIBERAL-DEMOCRATIC STATE. By Maurice Parmelee. John Wiley & Sons, Inc., New York; Chapman & Hall, Ltd., London. 1934. 430 pages.

Described as a sane evaluation of the merits, limitations, and ultimate aims of the three types of social movements dominating the world of political economy.

FUNDAMENTALS OF THE ELECTRIC LIGHT AND POWER BUSINESS AS AFFECTING THE PROBLEMS OF REGULATION. Brief by Ralph B. Feagin (in collaboration with John P. Bullington and F. G. Coates) of Baker, Botts, Andrews & Wharton, Houston, Texas.

The author presents his and his collaborators' conception of some of the outstanding fundamentals of the electric light and power business as they affect the various relationships which inherently exist between government and this regulated monopoly, such as the electric utility industry. The holding company is sympathetically analyzed.

RAILWAY NATIONALIZATION IN CANADA. By Leslie T. Fournier. Published by The Macmillans in Canada, Toronto, 1935. 358 pages. \$3.50. (In the United States copies can be obtained from the International Finance Section, Princeton University, Princeton, N. J.)

This study of the problem of the Canadian National Railways is the fifth of a series being published under the auspices of the International Finance Section of the Department of Economics and Social Institutions in Princeton University. Foreword by E. W. Kreamer, Director of Research.

STATE CERTIFICATION OF INTERSTATE MOTOR CARRIERS. By John J. George. *Air Law Review*, January, 1935.

A study of the issue between the interstate commerce clause and the state police power in the general field of motor carrier control with particular reference to certificates of public convenience and necessity authorizing interstate motor carrier operation.

The March of Events

Roosevelt Sees Utility Bill "Positive Recovery Measure"

PRESIDENT Roosevelt, in his recent radio address to the nation, said that he considered the proposed legislation to provide for the elimination of unnecessary holding companies in the public utility field a positive recovery measure.

Power production in this country is virtually back to the 1929 peak and the operating companies in the gas and electric utility field are by and large in good condition, according to the President. Declaring that under holding company domination the utility industry has long been hopelessly at war within itself and with public sentiment, Mr. Roosevelt continued:

"By far the greater part of the general decline in utility securities had occurred before I was inaugurated. The absentee management of unnecessary holding company control has lost touch with and has lost the sympathy of the communities it pretends to serve. Even more significantly it has given the country as a whole an uneasy apprehension of overconcentrated economic power."

President Roosevelt also favored the enactment of legislation designed to improve the status of our transportation agencies.

Taking direct issue with the President's contention that the pending utility bill is a positive recovery measure, the Catholic Church Extension Society of the United States of America has written to every Congressman and Senator protesting the bill on the ground that if it passes "the Catholic Church Extension Society will be bankrupt and we will stand before our Catholic people ruined by the legislation of our elected Senators and Representatives." The attack follows criticisms of the bill on similar grounds by Duke University and the University of Virginia, but probably is the most severe yet received from any group of its kind, according to an item published in *The Wall Street Journal*.

Government's Power Program Hit by Business Leaders

THE New Deal power program and other policies of the national administration were criticized by outspoken business leaders at the twenty-third annual meeting of the Chamber of Commerce of the United States, held recently in Washington, D. C.

Wendell L. Willkie, president of the Com-

monwealth & Southern Corporation, declared that the violent criticism of American industry, the drastic and crippling legislative measures which are proposed to reorganize and regiment American business, have prevented a restoration of confidence and have retarded the resumption of business activity. If freed from the artificially invoked threats by the government, the electric utility business, Mr. Willkie said, will do more to lift this country out of the depression than the government itself can do with all its expenditures. Mr. Willkie warned his audience that any public inquisitor with a sense of news values can take any business and prejudice the public mind by the use of isolated examples of abuses and error. He took occasion to quote President Roosevelt, who, in speaking of abuses which have appeared in the administration relief program, said in his recent radio talk:

"When cases of this kind occur, there will be those, of course, who will try to tell you that the exceptional failure is characteristic of the entire endeavor. It should be remembered that in every big job there are some imperfections. There are chiselers in every walk of life, there are those in every industry who are guilty of unfair practices, every profession has its black sheep. . . ."

"When I heard and read that statement," Mr. Willkie said, "I momentarily thought, but of course incorrectly, that my oft-repeated defense of the sound utility holding companies was being plagiarized."

Other speakers at the Chamber's annual meeting were equally outspoken in their apprehension of the increasing interference of government in the affairs of business. Forney Johnston, attorney who obtained a Federal court injunction against the TVA, charged that President Roosevelt is using his power to nationalize American industry. Hitting one New Deal measure after another, Mr. Johnston said:

"Far more serious is the President's apparent obsession, for there is no other word to describe it, that utilities must be federally regulated and holding companies annihilated by the Federal government in order apparently to make way for public ownership."

Harper Sibley, Rochester, N. Y., capitalist, the newly chosen president of the Chamber, told newspaper men that business leaders will fight every attempt by the administration to impose changes on the nation that are not confined strictly to temporary recovery projects. He said business feared that the administration would build up a burden of taxation that the country would not be able to meet.

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Senator Denies Grand Coulee Land Connection

IN a letter to the editor of *The Nation*, published in the April 17, 1935, issue of that weekly magazine, former Senator Clarence C. Dill of Washington protested against statements made by Mr. James Rorty in an article published in the March 20th issue of *The Nation*, in which the former Senator was accused of being connected with land speculation in the vicinity of the Grand Coulee dam, now under Federal construction. Reference to this article was made in the April 11th issue of PUBLIC UTILITIES FORTNIGHTLY. Frankly admitting his activity as a United States Senator on behalf of the Grand Coulee project, Mr. Dill stated:

"I do not have any interest, and never have had any interest, direct or indirect, in the numerous realty and investment companies which own lands in the Columbia Basin, and that applies to everybody dead or alive, in heaven or the nether regions, now or hereafter."

Probe City Plant Injunctions

SENATOR George R. Norris (R.), Nebraska, recently offered a resolution in the Senate, directing the Federal Power Commission to furnish to the Senate a list of all publicly owned electric generating or distributing plants, whether Federal, state, county, or municipal, in the United States in which the installation, organization, or operation of such plants has been interfered with by reason of restraining orders or injunctions issued in Federal and state courts.

The resolution also called upon the commission to report the delay, if any, in each case that has occurred, and the expense, both direct and indirect, in each case that has been incurred by the owner of such publicly owned plants by reason of such restraining order or injunction.

Consideration of the resolution was postponed

pending an amendment by Senator William H. King (R.), Utah, who suggested that the result of the suits, or whether they were merely interlocutory orders or direct proceedings which culminated in trial, ought to be noted.

Concludes Utility Hearings

THE Senate Interstate Commerce Committee has concluded the last of three important hearings and prepared to press for action by this Congress on a group of public utility and transportation measures urged by President Roosevelt in his recent radio talk to the country.

Ended earlier were the hearings on the bills proposing to place water carrier and bus and truck transportation systems under the Interstate Commerce Commission.

Wire Utilities Study Pooling

AFTER fifty years of rivalry, the Western Union and Postal Telegraph companies were said in informed quarters recently to be considering elimination of costly duplication of service, according to the *Associated Press*.

The plan under consideration, it was said, calls for one company or the other to withdraw from communities where one could easily handle all the telegraph business. Telegrams would be accepted for either company at the remaining office and the company accepting the messages would agree to speed them along without delay.

The new pool plan would result in considerable cut in overhead, it was said, through elimination of duplicated rents, messenger service, and office help as well as wire maintenance.

The plan was reported to have resulted from hearings on the telegraph situation before the Federal Communications Commission.

There were widespread reports a year ago that Western Union and Postal had agreed to consolidate, but this failed to materialize.

Alabama

Plan Rural Electrification

THE board of directors of the Alabama Rural Electrification Authority recently voted to incorporate and elected Gordon Persons, chairman of the board, president.

J. Litt Edwards, of Selma, was elected vice president, and Mark Nichols, of Auburn, secretary, of the corporation that will direct the rural electrification program to be financed by

Alabama's share of the \$100,000,000 which the new works-relief legislation allots to rural electrification.

Mr. Persons announced that the Alabama Power Company had submitted a tentative list of 181 feasible projects to cost \$1,400,000 but that no decision or discussion had been taken on the list. He said that none of the projects on the list had been revealed for fear of later changes that probably would be made.

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Arizona

Commission Reduces Rates

THE corporation commission has ordered a reduction of electric rates to consumers in Flagstaff, Winslow, Holbrook, and Joseph City, amounting to \$15,125 annually, accord-

ing to the *Phoenix Gazette*. The reduction became effective April 25th.

Utilities involved are the Arizona Electric Power Company, Flagstaff Electric Light Company, and Holbrook Light and Power Company.

California

Utilities Board Favored

CREATION and establishment of a public utilities commission with power to authorize sale and issuance of revenue bonds for the purpose of defraying costs of construction and acquisition of public utilities within any city, county, or other local governmental agency or political subdivision, is authorized in the Garrison-Jespersen bill favorably reported to the senate by its committee on municipal corporations recently.

The act would permit issuance of revenue bonds for extension to, as well as acquisition of, public utilities for production, purchase, sale, and distribution of products, commodities, energy, or services of such public utilities.

Water, power, gas, transportation, and any other utilities could be acquired under the act. The proposed utilities commission would be given power to authorize sale and issuance of revenue bonds without a vote of the people, it is reported.

Connecticut

Governors Study Rail Plans

THREE alternative plans for solution of the New England railroad problem—unification, merger, and individual operation—were recommended for consideration by a committee of twelve at a conference between the governors of the six New England states which

was held recently in the city of Hartford.

Truck Regulation Passes

LEGISLATION providing for regulation of motor carriers by the public utilities commission has been passed by the senate and the house.

District of Columbia

Study Utility Franchise Tax

TAKING a leaf out of the President's anti-holding company book, the commissioners of the District are considering putting a "franchise" tax on each local utility consisting of 10 per cent of all the dividends paid to every holder of 10 per cent or more of its voting stock.

The commissioners also propose to tax utilities 4 per cent of their gross receipts and, in addition, 6 per cent of their net corporate revenues (prior to deduction of depreciation and taxes) instead of the present tax of 5 per cent against the gas company and 4 per cent against all other utilities, on gross earnings. All such tax measures for the District would have to be authorized by act of Congress.

Indiana

Seek Low Cost Farm Power

FIRST steps in a plan to obtain cheaper power for farm homes were taken recently

when a petition was filed by the Indiana State-wide Rural Electrification Membership Corporation with the public service commission.

The Indiana Farm Bureau filed the papers

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under a new state law permitting organization of general and local corporations, with the former to serve as the parent group. It is planned to have the local groups served by

a nearby utility. These groups would buy electric power wholesale from the utilities and distribute it to customers under the proposed plan.

Kansas

Emporia Gas Rates Cut

NEW gas rates, estimated by the state corporation commission to save consumers \$26,000 a year, have been scheduled to go into effect at Emporia.

Seven other towns are going to have their electric current rates lowered, according to

a statement in the *Topeka State Journal*.

The commission has approved reductions for Blue Rapids, Florence, Frankfort, Hillsboro, Kinsley, and Peabody, supplied by the United Power & Light Company, and White Cloud, served by the North Kansas Power Company.

Savings to consumers were estimated at approximately \$12,000.

Kentucky

Electric Rates Cut

A THREE months' controversy between Bourbonville consumers and the Kentucky-West Virginia Utilities Company ended re-

cently with the consumers getting a 25 per cent reduction in electric rates.

An appeal to the public service commission was dropped and street lights were restored after three months' darkness.

Massachusetts

Phone Charge Retained

BY a vote of 17 to 13 the state senate recently rejected a legislative bill which sought to prohibit telephone corporations from making reconnection charges.

The house ordered to a third reading a bill which would prohibit gas and electric corpo-

rations from levying penalty charges upon their customers for delinquency in the payment of their bills.

This committee rejected two bills which sought to compel telephone companies to supply without charge to their subscribers meters to record the number of calls made monthly on each telephone set.

Michigan

Defends Rate Increase

IN a letter to Mayor Couzens, the Detroit City Gas Company recently declined to withdraw its new schedule of increased rates which nominally went into effect April 8th

but was withheld pending negotiations with the city, according to an item in *The Detroit News*.

The company expressed a willingness to discuss the proposed acquisition of the company's property by the city.

Minnesota

Gives City Utility Control

A BILL passed by the 1935 legislature gives the St. Paul city council authority to

issue additional one-year permits to the Northern States Power Company.

Under the city charter, the council has authority to grant only three one-year permits

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to the power company after its franchise has expired, and as it already had used up the three extensions, it was in danger of losing its regulatory powers over the utility. The bill passed specifically grants the council authority to charge the utility a license fee equal to 5 per cent of its gross earnings, thus making sure the city will not lose this revenue, totaling approximately \$400,000 annually.

The legislature failed to pass proposed legislation in the form of a constitutional amendment providing fifty million dollars for the state to engage in the electric power business.

In view of Governor Olson's veto of the legislature's twenty-two million omnibus sales tax bill, during the closing hours of the session, a special session of the legislature was expected.

Missouri

Water Rates Reduced

A COMPLAINT filed against the St. Louis County Water Company by consumers in unincorporated areas in the county was dismissed by the public service commission when a new schedule of rates was filed by the company, effective May 1st.

The schedule is satisfactory to the complainants, and they asked dismissal of the petition. The new schedule carries a reduction in rates for all metered service in unincorporated areas. It will amount in annual total of revenue reduction for the company approximating \$20,000.

Regulatory Bills Enacted

A SENATE bill providing that the public service commission may issue temporary permits to interstate carriers, without hearing and notice, for occasional trips, not exceeding one

in any calendar month, has been approved by Governor Guy B. Park. Such carriers must have adequate liability insurance. Ports of entry into this state may be established, where temporary permits may be issued.

Electric Rates Reduced

THE Ozark Utilities Company has filed with the public service commission a new schedule of electric rates affecting 32 southwest Missouri towns.

The new rates, which will go into effect June 1st, will mean an annual net reduction of approximately 13 per cent.

The Lawrence County Water, Light and Cold Storage Company, which serves nine southwest Missouri towns, recently filed new schedules of electric rates with the commission which will save its customers \$14,950 annually. The reduction amounts to approximately 7½ per cent.

New York

Accepts Rate Reduction Plan

THE Consolidated Gas Company and its subsidiaries recently agreed to a proposal of the public service commission to withdraw present petitions for increased utility rates designed to meet new taxes, and to submit to the commission a 3-point plan for profit-sharing rates.

The plan would be restricted to electric rates only and to New York city, and would be experimental, subject to approval of the commission after presentation by the companies, according to the *New York Herald Tribune*. No rate program which would give a reduction in rates to the consumer in proportion to profits of the companies has ever been tried in New York state.

The formula suggested by the commission and accepted by the companies follows:

1. An immediate reduction in rates to general consumers.

2. Decreases in rates to the full extent of any decreases in operating taxes or governmental charges levied by local, state, or Federal authorities.

3. Further reductions as operating expenses are decreased or profits increased.

Suspends Rate Order

AFTER hearing arguments, Justice Martin V. Schenck of the supreme court recently directed suspension, until June 1st, of public service commission order making effective May 1st reduction in power rates charged by village of Boonville, Oneida county.

Joined with the village in the controversy is the Municipal Electric Utilities Association which embraces a membership of 57 municipal utilities. In the court proceeding, Justice Schenck was asked by the village of Boonville for an injunction against the commission's

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rate reduction until the appellate division has reviewed commission order. On June 1st, Justice Schenck expects to render a decision on the injunction application.

Vote Down Municipal Plant

IN one of the most spirited referendums in the history of Auburn, citizens recently voted down a proposed law which provided

for the construction of a \$1,500,000 municipal lighting plant.

Prior to the referendum, a PWA allocation for \$319,000, of which \$93,000 was a grant, had been approved by Public Works Administrator Ickes.

Advocates of the plant mustered 4,848 votes to 6,293 cast by opponents. A total of 11,196 citizens out of 15,029 eligible voted, it is reported.

North Carolina

Electrification Bill Passes

SPONSORED by the administration, the Bagley bill, to create a rural electrification authority, was passed recently by the senate, according to *The News and Observer*.

The Bagley bill provides for the appointment by the governor of a board of five members for the purpose of promoting and encouraging the fullest possible use of electricity by making current available to the rural in-

habitants of the state. The board would have full control of the development of rural lines.

The authority would have the power to finance and construct power lines in rural areas and would be allowed to lease these lines to power companies, or to allow their use by power companies which would collect a service charge. Profits from the use of the lines would be used to retire bonded indebtedness incurred in the construction of the lines.

Ohio

New Gas Rates Proposed

THE Ohio Fuel Gas Company recently accepted the gas rate offer of the city of Athens, averaging 58 cents a thousand cubic feet, and the city surrendered all claims to \$188,000 the company has collected under protest during a 11-year rate fight.

The new rate, will prevail for one year and the city has an option of renewing it for two more years.

A new gas rate, higher than the one now in effect, has been offered to the Ohio Fuel Gas Company by Glouster council. The rate

is: \$1 for the first 500 cubic feet consumed, 55 cents per thousand for the next 2,500 cubic feet, and 50 cents per thousand for all in excess of 3,000 cubic feet.

Gas Ordinance Causes Row

A RECALL movement against all five of Sandusky's city commissioners got under way recently as a result of the action of the commissioners in passing a 3-year gas rate ordinance April 8th without a public hearing.

Oklahoma

Sales Tax Includes Utilities

THE new sales tax law, which became effective recently, provides for a 1 per cent tax on transportation costing more than 15 cents, and gas, electricity, transportation, and communications furnished by a municipal corporation.

The tax upon transportation has been generally misunderstood. It applies to all transportation costs within the state, but no tax is charged where the ticket takes the purchaser beyond the limits of Oklahoma.

Among the items which continue to be taxed under the new bill and were included in the bill for the last year, are:

Electricity and gas; telephone or communication messages, local and long distance; and service in radiocasting or renting of such facilities.

River Authority Bill Passes

THE Grand river dam authority in north-eastern Oklahoma virtually became a

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reality when the senate passed the proposed authority bill.

Governor Marland has indicated he would approve the bill. It passed the senate by vote of 28 to 10, with most of the fight directed upon it because two other authorities were not included in the act.

The bill provides for creation of the authority in 17 northeastern Oklahoma counties. Under the measure, the governor, attorney

general, and labor commissioner each will appoint three members of the board of directors and that board is empowered to issue \$15,000,000 in bonds.

Jack Rorschack Vinita, author of the bill, declared it was necessary to obtain Federal grant of funds for the proposed Grand river dam, and its creation would expedite the project to bring untold power development to northeastern Oklahoma.

Pennsylvania

Proposes Utility Legislation

UTILITY legislation sponsored by Governor George H. Earle and recently introduced in the house, would provide:

That the public service commission must first decree that an increase in rate is permissible before the rate can go into effect. The law now permits rate raises thirty days after a new tariff is filed.

That holding companies—or such concerns or persons influencing the activity of public service companies by stock ownership or interlocking directorates—be brought within the scope of the commission.

That the commission may inspect and revise contracts between such related corporations.

That the commission may revise contracts made by a utility with its underliers.

That truckers not certified as common carriers be required to pay \$10 a year for permission to use state highways. A 12-hour limit for drivers and a provision that they cannot go on duty without eight hours of rest are included in the bill.

A measure to prevent payment of telephone, gas, and other utility bills until the end of the month, instead of in advance, and amendments to broaden the powers of the commission are waiting committee consideration.

Rhode Island

Utilities Body Reorganized

THE Rhode Island Public Utilities Commission has been abolished under legislation reorganizing the state government which became effective on March 1st. In its place a division of public utilities, as a part of a department of taxation and regulation has been created, to which has been transferred

jurisdiction over common carriers and other public utilities formerly vested in the commission. The head of the department is a director, Hon. Thomas A. Kennelly; the head of the division is a division chief, Hon. Frederick A. Young; and the secretary of the division is Mr. R. Roscoe Anderson, who was secretary of the public utilities commission.

South Carolina

Court Halts U. S. Power Plant

GREENWOOD county, S. C., and PWA Administrator Ickes recently were enjoined from construction of a public power project on the Saluda river with PWA funds in a decision of Judge H. H. Watkins in district court.

Judge Watkins granted the request of the Duke Power Company for an injunction against the project. The PWA had allotted \$3,000,000 for the proposed hydroelectric plant. An appeal will be taken to the circuit court of appeals in Richmond, Va., the first week in June.

Agree to Rate Reductions

THE Broad River Power Company has agreed to additional rate reductions, estimated to amount to from \$22,000 to \$25,000 annually, to certain classes of customers according to the public service commission. The reductions will apply as of July 1st.

The last official act of J. E. Berry, commissioner named by Governor Johnston to fill the unexpired term of the late Thomas H. Tatum, was to notify the governor of the agreement. He was succeeded in office by H. W. Scott, of Columbia, who was elected by the general assembly.

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Tennessee

Utility Opposes TVA

TERMINING the Tennessee Valley Authority unconstitutional and charging an "illegal conspiracy" between Harold L. Ickes, PWA administrator, the TVA, and the city of Knoxville to get control of the power in-

dustry in this section, attorneys for the Tennessee Public Service Company recently opposed the city in the litigation surrounding a temporary injunction granted TPS a month ago to force discontinuance of the construction of a municipal power distribution system here, according to *The Knoxville Journal*.

Texas

Reject City Gas System

LUBBOCK voters, who elected a mayor and two commissioners on a gas rate reduction platform a year ago, recently turned down issuance of \$1,300,000 bonds for the construction of a municipal natural gas system.

The vote was 869 against, and 371 for, the bonds. The city commission sponsored the issue.

Ickes Favors Gas Pipe Line

ASSURANCE that the PWA will give sympathetic consideration to the application for funds to build the proposed natural gas pipe line north from the Texas Panhandle was given by PWA Administrator Ickes recently to Governor James V. Allred.

Ickes told Governor Allred he is looking forward to the application's being submitted and will give it every possible consideration.

Utah

Propose Joint Power Plan

A COÖPERATIVE power project, whereby Utah and Nevada industries would be benefited by cheap electricity from Boulder dam, was proposed to the state planning board recently by George W. Malone, Nevada state engineer, according to an item in *The Deseret News*.

Nevada, said Mr. Malone, intends to bor-

row Federal funds to construct the transmission line. In the event an investigation shows it to be feasible for Utah to take power from the Pioche, Nevada, district into the southern part of Utah, Mr. Malone said Utah could assist in the construction of the transmission line from Boulder dam to the Pioche district, and thereby reduce the cost of electricity to southern Utah industries and farmers.

Virginia

Cities Wait for TVA Power

EIGHT communities in the western part of Virginia are listed by the TVA as prospective customers for electric power to be generated at Norris dam near Knoxville upon the completion of the dam in August, 1936.

These communities are Danville, Galax, Marion, Abingdon, Appalachia, Dunganon, East Radford, and Crewe.

It is assumed that negotiations are suspended pending the outcome of court decisions, but that if the government agency wins out, they will be resumed.

Washington

Spokane Plans Power Plant

CONSTRUCTION of a \$623,573 hydroelectric plant and dam in the Spokane river by the Spokane city water department has been assured by the city council.

The council authorized a \$500,000 bond issue to meet the city's share of the cost. Officials expect the Federal government to grant \$185,000 or 30 per cent of the cost. The bonds will be liens against water department revenue.

The Latest Utility Rulings

Rate Comparison Is Insufficient to Support Commission Rate Order

THE Washington Department of Public Works, alleging that rates of the Puget Sound Power & Light Company for supplying the city of Port Angeles were excessive and unjustly discriminatory, ordered that rates in effect in certain other communities should be applied. The effect of eliminating the discrimination in rates would have the temporary effect of decreasing the company's rate of return, but, in the opinion of the commission, would still leave the rate of return adequate under present economic conditions.

No attempt was made to value the company's property, and the department did not find that the rates in the other communities were sufficient or insuffi-

cient. The supreme court, in sustaining a judgment against the commission, declared:

A mere rate difference does not constitute an unlawful discrimination. There is no finding, nor is there any evidence, that the Blaine, Sumas, or any other rate is just, fair, reasonable, or sufficient. The department did not find that the Port Angeles rate is unreasonable except by comparison of same to the Blaine-Sumas rate. The two assumptions—the existing Port Angeles rate is unreasonable, and the Blaine-Sumas rate is a reasonable one to be applied at Port Angeles—are not sustained by the evidence.

State ex rel. Puget Sound Power & Light Co. v. Department of Public Works, et al. 42 P. (2d) 424.



Low-cost Rate Plan Approved by Wisconsin Commission

ASO-CALLED "low-cost" rate plan for electric utilities has been approved by the Wisconsin commission. The purpose of the plan is to increase the use of electricity by offering a low rate for additional service to customers who increase their consumption beyond the amount formerly used.

The plan sets forth general principles, and each utility is to submit an intermediate "low-cost" or objective rate on or before July 1, 1935. The intermediate rates are to provide a more flexible transition from present rate levels to "low-cost" rates.

The general pattern of the intermediate objective rate is of the fixed-charge type, containing a fixed monthly charge of 60 cents net, the first step of the energy schedule providing for not less than 35 kilowatt hours or more than 75 kilowatt hours, the second step (and, if

necessary, a third step) providing for the remaining kilowatt hours up to a total of not to exceed 200 kilowatt hours used per month, and the final step for the excess.

The energy schedule of the intermediate objective rate is to be in general lower than the existing schedule of the utility for an amount sufficient to provide a definite incentive for increased use of service for general purposes in the home and to encourage the use of major appliances such as the refrigerator, range, and water heater.

The 12 separate monthly consumptions during the calendar year 1934 are to constitute the base monthly consumption for the operation of the plan as pertaining to each customer. The existing regular rate applied to the base consumption constitutes the base bill. Energy used by the customer in any month

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in excess of that used in the corresponding base month is to be charged for at not to exceed the corresponding steps of the intermediate objective rate, except that the minimum basic month consumption for the purposes of the plan is to be taken at not less than 20 nor

more than 40 kilowatt hours. Within sixty days after the end of the first year of operation under the plan the utilities are to present to the commission a detailed report on the results achieved. *Re Low-Cost Rate Plan for Electric Service (2-U-810)*.



Statute Restricting Dividend Payments Not Applicable to Interstate Companies

A WASHINGTON statute provides that "no public service company engaged in intrastate business in this state shall pay any dividend," except under certain conditions and with the approval of the Department of Public Works. The supreme court of that state has held that this limitation on dividends applies only to companies which do business exclusively intrastate, and therefore it does not apply to a company which is engaged also in interstate business.

The majority opinion of the court

was that the use of the words "engaged in intrastate business in this state" clearly limited the application of the statute. Otherwise it must be concluded that the legislature used idle words, since, in other parts of the regulatory law, similar words were not used. Justice Geraghty dissented from this opinion, however, holding that the court by this construction had interpolated the word "only." Two other judges concurred in the dissenting opinion. *State ex rel. Washington Water Power Co. v. Murray, et al. 42 P. (2d) 429.*



Electric Company Must Supply Municipality Acquiring Lines

THE Public Service Company of Colorado has been ordered by the state commission to furnish wholesale electric service to the city of Fort Collins following the acquisition of the company's distribution system in that city. Service is to be rendered pending the construction of a municipal generating plant.

Pending litigation in the courts involving the right of the city to acquire the property and questioning the legality of advancements by the Federal government for plant construction was held to be no obstacle to the commission order, since "an administrative body must assume the city has a right to proceed until it is held otherwise by a court of competent jurisdiction." The commission held further that it had no power to adjudicate the question of the validity of a municipal election authoriz-

ing the construction of an electric power plant.

The company was held to be a public utility with respect to its wholesale service and obligated to furnish electricity for resale. A profession of service was deemed to have been made by its entering into the business of selling energy at wholesale to a substantial number of public utilities, including two municipal corporations, for distribution by them. It was apparent that no expansion of plant was necessary in order to furnish this service, and the commission was of the opinion that the fact that the applicant for service was a municipality did not relieve the company of furnishing service.

A further argument was made by the company that the city sought to make itself a joint owner and partner of the company in the business of operating

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and conducting a generating plant and distributing system, contrary to provisions of the state Constitution. The commission rejected this contention, stating that the city would no more be a joint owner or partner with the serv-

ice company than it would be a joint owner or partner with some coal company from which it would buy its coal for heating its city hall. *Fort Collins v. Public Service Co. of Colorado* (Case No. 1571, Decision No. 6400).



Incorporated Telephone Company Held to Be a Public Utility

THE Missouri commission concluded that a telephone company was a public utility rather than a mutual company, since it was incorporated under the general corporation laws of the state as a corporation for profit. Moreover, the company had been granting reduced rates to stockholders with the result that they were receiving a profit from its operation.

The commission pointed out that by the charter the corporation acquired an existence as an entity separate from any of its stockholders. Necessarily, therefore, its relation to all persons taking telephone service was a contractual relation, an agreement entered into by it

on the one hand and a subscriber on the other, subject, of course, to regulation. The case of the mutual association, it was said, is different. The reason that the mutual association is not deemed to be a public utility is that in theory it is an aggregation of persons performing services for themselves and not for any other person, and hence the public has no concern in their business.

The commission made the further ruling that shareholders are not entitled to lower rates than nonshareholders, since this would constitute unreasonable and unlawful discrimination. *Re Farmers Mutual Telephone Co.* (Case No. 8840).



Rulings Modified to Speed Rate Reduction

THE Arizona commission, in order to make effective immediately rate reductions for the Central Arizona Light and Power Company, has issued a revised opinion and order in which certain claims of error by the utility are conceded. The rates formerly ordered have been held up by litigation in Federal and state courts.

One of the items which the company laid stress upon in its court action was the valuation of land. The commission had based its valuation on the testimony of witnesses for the commission concerning depressed market value. Upon reconsideration the commission considered that the historical cost of the land would more equitably reflect the fair value.

The value of the supervisory services rendered by the Electric Bond and

Share Company was held to justify the payment of reasonable fees. The commission said that this was not to be taken as meaning that such amount should be authorized to be included in operating expenses for regulation of rates in the future, except and to the extent that the cost thereof might be found to be not in excess of the value to the operating company.

The commission expressed the view that while it had no authority to regulate the company's merchandising operations, it had authority to regulate such matters to the extent that they affected the operating expenses which are the basis of determination of reasonable rates. It was said that the company's accounts and operating statements showing the results of its operations for regulation of its rates might with pro-